

State of California

**COMPREHENSIVE
ANNUAL
FINANCIAL REPORT**

For the Fiscal Year Ended
June 30, 1996



*Prepared by the Office of the
State Controller*

KATHLEEN CONNELL
State Controller

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Introductory Section



KATHLEEN CONNELL

Controller of the State of California

December 30, 1996

**To the Citizens, Governor and Members
of the Legislature of the State of California:**

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the State of California for the year ended June 30, 1996. This CAFR presents all the information required to fully assess the State of California's financial condition.

As the State's Chief Financial Officer, I have strived to bring fiscal responsibility, stability, and accountability to all levels of government. I am committed to making certain that government agencies operate efficiently and that prudent management practices guide decision-making. Every dollar saved as a result of improved efficiency is a dollar that can be directed toward assuring a well-educated, safe, and healthy California.

These principles are reflected in our monthly and annual reporting on State finances, audits of state and local government entities, collection of overdue debts to the State, and other operations of the State Controller's Office. In addition, I authorized an independent performance audit of the entire State Controller's Office. The purpose of this audit was to conduct a top-to-bottom review of the department to identify where costs could be cut and services improved. Based on the audit findings, we have developed a plan for our own department that will save millions in tax dollars and allow us to deliver better customer service with less staff. This is just one example of the actions government — at all levels — needs to take to assure we have the resources to continue meeting our challenges in the future.

To help us toward the goal of improving how government operates, I remain strongly committed to the enactment of legislation to require zero-based budgeting for State agencies. This effort to completely reform the budget process nearly succeeded in the past legislative session, when it passed unopposed in the Legislature. Even though the bill was vetoed, I continue to believe that this common-sense approach to allocating tax dollars is needed. It would instill a greater degree of accountability and provide the incentive for government to do more with less.

This report has been prepared based on nationally recognized standards. It is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this letter of transmittal and my financial overview. The overview presents a summary of financial data that is useful in evaluating the fiscal condition of the State. The Financial Section includes the general purpose financial statements and notes to the financial statements. The Financial Section also includes the combining fund and account group financial statements and schedules, which are presented for the purpose of additional analysis. The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

Responsibility for the accuracy of data, and the completeness and fairness of the presentation, including all disclosures, rests with the State. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that fairly presents the financial position and operation of the various funds, account groups, and component units of the State.

This CAFR could not have been prepared without the generous assistance and cooperation of all state agencies. We wish to thank the State Auditor and his staff for their audit of the financial statements contained in this report. I also am extremely grateful to my staff for their hard work and professionalism.

Sincerely,

KATHLEEN CONNELL
California State Controller

State Controller's Financial Overview

ECONOMIC OUTLOOK

The current economic outlook for California is the best it has been in more than six years. The State is producing jobs at a higher rate than the nation as a whole, and the unemployment rate continues to fall. By November 1995, the State had replaced the 500,000 jobs lost during the 1990-93 recession; by September 1996, employment in the State was almost 300,000 jobs above the 1990 peak. The lack of jobs that triggered the out-migration of workers and dampened the recovery of the housing industry appears to be turning around. This will be beneficial not only to the growth of employment in construction, but to other sectors as well. The California index of leading indicators has been climbing steeply since June of 1995, and the September 1996 reading indicates that economic growth in the State should remain strong throughout the next 12 months.

Population growth in California is typically higher than for the nation as a whole. As a consequence of the recession in the first three years of this decade, the rate of California's population growth has dropped to about 1% annually, paralleling that of the nation. In the next three years, the rate of population growth will probably rise to exceed the rate of the nation as a whole, with an average of about 1.2% annually.

Although the State's unemployment rate is high compared to that of the rest of the United States, it has been dropping rapidly over the past two years. In September 1996, it dropped to 7% — the lowest reading since January 1991. California's unemployment rates may remain higher than the national average over the next two years, but that will be partially due to current residents who choose to re-enter the labor force. However, as higher proportions of Californians enter the job force, per capita income and tax revenue growth will continue to be strong in California.

The distribution of California's non-farm employment by industry is similar to that of the United States as a whole. For both the State and the nation, the primary changes in the distribution of employment by industry over the past two decades have been the decline in manufacturing and the rise in service employment. Service employment, the largest sector of the economy, employs 27% of all California workers. In the past six years, construction employment in California has declined relative to the economy as a whole, but this is projected to be only a temporary change.

Significant employment reductions also have been seen in the fields of finance and real estate. These industries saw declines that are related both to cyclical factors, which are temporary in duration, and to restructuring, which will likely lead to a permanent reduction in employment in those industries.

Though California historically has been a high income State, the recent recession caused a sharp drop in the State's per capita income compared to the national average. But it should be noted that there also has been a longer trend change in California's national position. In 1960, per capita income in California was 23.5% above the national average. In 1990, before the recession had peaked, per capita income in California was only 11.2% above the national average. By 1994, per capita income had reached a low of only 3.3% above the national average. In 1995, however, personal income in California began to rise relative to the nation. As employment gains raise labor force participation rates in the next year, there will likely be a hearty resurgence of the growth of per capita income.

During the recession, state expenditures, primarily those for health and welfare, grew rapidly. At the same time, state revenues fell. In the past fiscal year, there has been a complete reversal of that pattern. Health and welfare caseloads have begun to subside, the Legislature has approved grant reductions in major welfare programs, and revenue growth has increased sharply. As a result, the State has been able to repay the last of the debt that was incurred to bridge the revenue gap created by the recession. California also has been able to significantly increase funding for education.

The outlook for revenues in the current fiscal year continues to be optimistic. Despite a reduction of the top personal income tax brackets and corporate tax rates, revenue growth continues to be strong in 1996. During the first four months of the 1996-97 fiscal year, the three major revenue sources for the State (bank and corporation taxes, personal income taxes, and retail sales taxes) have shown an increase of 10.2% from the same period in the 1995-96 fiscal year.

The gross state product of California is expected to total \$959 billion in 1996 and currently represents 12.6% of the nation's gross domestic product. The California economy is the seventh largest of any political entity in the world. The State is a world leader in the high technology industries of bio-technology, computers, multi-media, and communications. These factors put California in a good strategic position to maintain strong economic growth in the future.

MAJOR INITIATIVES FOR THE YEAR

The 1996-97 Budget Act reflects an improvement in the near-term fiscal outlook for California. The Budget Act eliminates the accumulated budget deficit carried over from prior recessionary years and provides funding increases for K-14 education.

The 1996-97 Budget Act was signed by the Governor on July 15, 1996. Projected General Fund revenues and transfers of \$47.6 billion represent a 6.0% increase over the prior fiscal year.

General Fund expenditures of \$47.3 billion represent a 9.0% increase over the prior fiscal year's Budget Act expenditure projections. The principal features of the 1996-97 Budget Act were the following:

1. Larger-than-expected revenue gains in 1995-96 and 1996-97 resulted in major increases in the Proposition 98 minimum funding requirement. The 1996-97 budget includes the spending of Proposition 98 funds on class size reduction and a variety of related initiatives.
2. The 1996-97 Budget Act includes a 5% reduction in the bank and corporation tax rate, with an effective date of January 1997.
3. The 1996-97 Budget Act also includes a variety of reductions to non-education spending. This includes the extension of certain welfare grant reductions made in past years, and the suspension of the Renters' Tax Credit for an additional year. These savings are partly offset by new initiatives in local law enforcement, family planning, teen pregnancy prevention, and new funds for higher education.

The 1996-97 Budget Act reflects the continued economic expansion and state General Fund revenue growth outlook, and therefore contains no new tax increases.

Since the passage of the state budget, the federal government has passed, and the President has signed into law measures to enact federal welfare reform. These measures could result in either cost increases or decreases in state welfare programs during 1996-97, depending on how they are implemented in California. These potential effects are not likely to be major in the current year, but will have a variety of state-level fiscal impacts – especially in future years.

The passage of the 1997 federal budget could also have an effect on California's budget. Although funding was authorized in federal immigration reform legislation for Medi-Cal services to undocumented persons, the 1997 federal budget does not appropriate any of the additional federal funds assumed in the State's budget for this purpose.

FINANCIAL INFORMATION

Reporting Entity: The financial reporting entity of the State includes all the funds and account groups of the primary government as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the building authorities are reported within the capital projects funds of the primary government. The lease agreements, amounting to \$320 million

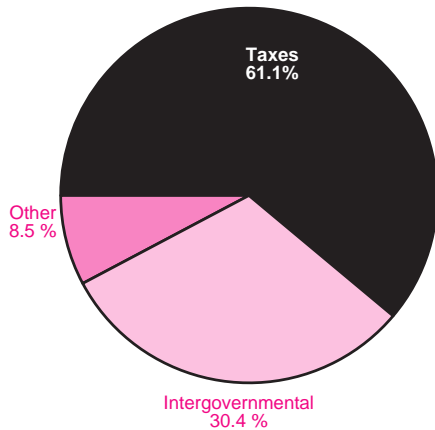
between the building authorities and the State, have been eliminated from the combined balance sheet. Instead, only the underlying fixed assets and the debt used to acquire them are reported in the appropriated account groups. Discretely presented component units are reported in separate columns in the combining financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations, and cash flows from those of the primary government. The University of California and various Authorities are reported as discretely presented component units.

Budgetary Controls: Annually, the State Legislature prepares a budget that contains estimates of revenues and expenditures for the ensuing fiscal year. This budget is the result of negotiations between the Governor and State Legislature. Throughout the fiscal year, adjustments in the form of budget revisions, executive orders, and financial legislation agreed to by the parties are made to the budget. The Controller is statutorily responsible for maintaining control over revenues due the State and the expenditure of each appropriation contained in the budget. Budgeted appropriations are the expenditure authorizations that allow state agencies to purchase or create liabilities for goods and services.

The State's accounting system provides the Controller's Office with a centralized control record system to fully account for each budgeted appropriation, including its unexpended balance, and for all cash receipts and disbursements. The accounting system is decentralized in that the detail of each control account is maintained at the agency level. During the fiscal year, the control accounts and agency accounts are maintained and reconciled on a cash basis. At the end of the fiscal year, each agency prepares annual accrual reports for receivables and payables. The Controller's Office combines its control accounts with the agency accrual reports to prepare the *Budgetary/Legal Basis Annual Report* and *Budgetary/Legal Basis Annual Report Supplement*. The methods of accounting for expenditures and revenues in this report are governed by state laws and regulations that, in some cases, are not in full agreement with generally accepted accounting principles. The information in the State's *Comprehensive Annual Financial Report* presents a consolidation of the amounts in the *Budgetary/Legal Basis Annual Report* and adjustments to the account balances to conform to generally accepted accounting principles.

Internal Controls: The State has established an internal control structure designed to ensure that the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that

REVENUES 1995-96
General, Special Revenue, and
Capital Projects Funds



these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. In addition, the government maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislature.

General Government Functions: The government provides a full range of services including education, health and social services, transportation, law, justice, public safety, recreation, resource development, and public improvements. These general government functions are accounted for in the State's General Fund, special revenue funds, and capital projects funds.

1995-96 Revenues: Table 1 presents a summary of General Fund, special revenue funds, and capital projects funds revenues for the year ended June 30, 1996. Revenues for the State's General Fund, special revenue funds, and capital projects funds totaled \$79.9 billion for the fiscal year ended June 30, 1996. This was an increase of \$5.7 billion, or 7.6%, over the previous year. The major components of this change were tax and intergovernmental revenues. Tax revenues increased \$3.9 billion, or 8.6%, over the previous year. Intergovernmental revenue would have shown a decrease of \$1.1 billion except for the inclusion of \$2.5 billion of federal receipts related to food stamps, which are being reflected in the statements for the first time.

**REVENUE
by SOURCE**
General, Special Revenue, and
Capital Projects Funds
(Amounts in billions)

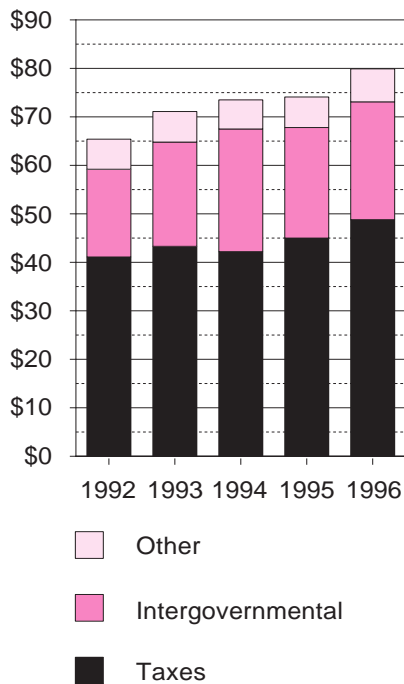


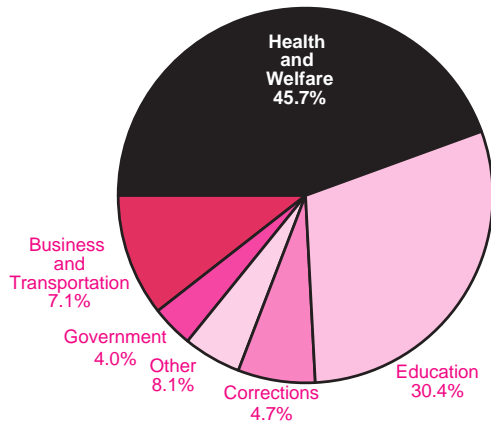
Table 1

Schedule of General Fund, Special Revenue Funds, and Capital Projects Funds Revenues

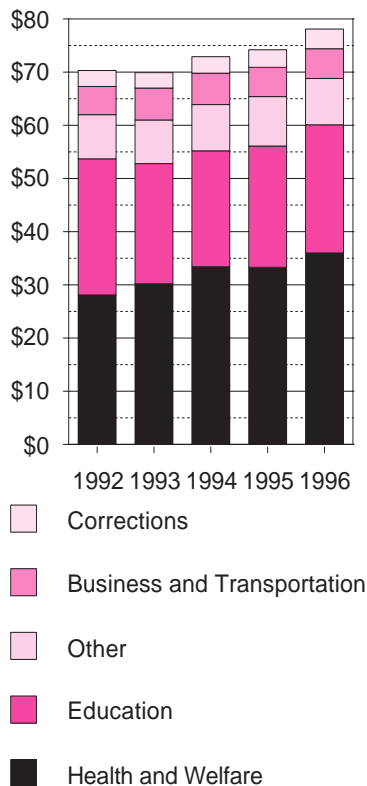
Year Ended June 30, 1996 (Amounts in thousands)

Revenues	1995-96 Amount	Percent of Total	Increase (Decrease) from 1994-95	Percent of Increase (Decrease)
Taxes.....	\$ 48,806,164	61.1 %	\$ 3,865,968	8.6 %
Intergovernmental.....	24,337,762	30.4	1,404,682	6.1
Other:				
Licenses and permits.....	2,938,539	3.7	106,023	3.7
Fees.....	1,499,821	1.9	130,761	9.6
Other minor.....	974,427	1.2	290,008	42.4
Interest.....	495,887	0.6	(42,772)	(7.9)
Penalties.....	402,445	0.5	(82,792)	(17.1)
Charges for services.....	388,700	0.5	(7,113)	(1.8)
Natural resources.....	73,038	0.1	3,150	4.5
Total.....	\$ 79,916,783	100.0 %	\$ 5,667,915	7.6

EXPENDITURES 1995-96
General, Special Revenue and
Capital Projects Funds



EXPENDITURES by FUNCTION
General, Special Revenue, and
Capital Projects Funds
 (Amounts in billions)



Five-Year Trend: Total revenues for the General Fund, special revenue funds, and capital project funds have increased from \$65.4 billion in 1992 to \$79.9 billion in 1996. This was an increase of \$14.5 billion, or 22.1%. This trend of increasing revenue is mainly attributable to an increase of intergovernmental transfers, which have grown from \$18.1 billion in 1992 to \$24.3 billion in 1996, which was an increase of \$6.2 billion, or 34.3%. Revenues for the five-year period increased \$7.2 billion, \$5.7 billion, \$2.4 billion, \$0.8 billion and \$5.7 billion in fiscal years 1991-92, 1992-93, 1993-94, 1994-95 and 1995-96, respectively.

1995-96 Expenditures: Table 2 presents a summary of General Fund, special revenue funds, and capital projects funds expenditures for the year ended June 30, 1996. Expenditures for the State's General Fund, special revenue funds, and capital projects funds totaled \$78.8 billion for the fiscal year ended June 30, 1996. This was an increase of 6.2%, or \$4.6 billion, over 1995. Changes in expenditures by function from the last fiscal year levels are presented in Table 2. The major components of the 1995-96 change from the prior fiscal year is attributable to expenditures for health and welfare, education, and capital outlay. Health and welfare expenditures increased \$2.7 billion over the previous year, of which \$2.5 billion was caused by the inclusion of food stamp expenditures which are being reflected in the statements for the first time.

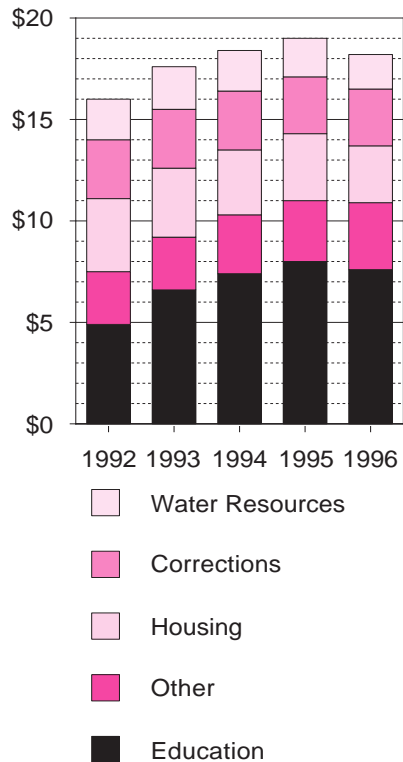
Table 2

Schedule of General Fund, Special Revenue Funds, and Capital Projects Funds Expenditures

Year Ended June 30, 1996 (Amounts in thousands)

Function	1995-96 Amount	Percent of Total	Increase (Decrease) from 1994-95	Percent of Increase (Decrease)
Health and welfare.....	\$ 36,001,362	45.7 %	\$ 2,665,646	8.0 %
Education.....	23,978,493	30.4	1,209,137	5.3
Business and transportation.....	5,599,561	7.1	100,128	1.8
General government.....	3,186,959	4.0	(708,810)	(18.2)
Correctional programs.....	3,692,696	4.7	402,503	12.2
Other:				
Debt service.....	2,218,273	2.8	(38,880)	(1.7)
Resources.....	1,823,369	2.3	87,527	5.0
State and consumer services.....	675,912	0.9	(17,067)	(2.5)
Property tax relief.....	470,127	0.6	(5,483)	(1.2)
Capital outlay.....	1,160,361	1.5	895,770	338.6
Total.....	\$ 78,807,113	100.0 %	\$ 4,590,471	6.2

**GENERAL
OBLIGATION BONDS
by FUNCTION**
(Amounts in billions)



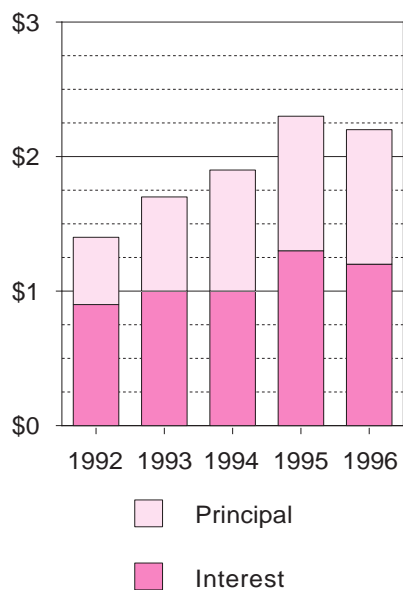
Education expenditures increased by \$1.2 billion, which was primarily related to an increase in the average daily attendance. In addition, this year's General Fund expenditures include the cost of the construction or acquisition of general fixed assets acquired through capital leases. Therefore, capital outlay increased by \$896 million, of which \$840 million was related to new capital leases used to acquire fixed assets.

Five-Year Trend: Total expenditures for the General Fund, special revenue funds, and capital projects funds have increased from \$70.3 billion in 1992 to \$78.8 billion in 1996. This is an increase of \$8.5 billion, or 12.1%. This trend of increasing expenditures is mainly attributable to the increase in health and welfare expenditures, from \$28.1 billion in 1992 to \$36.0 billion in 1996. This is an increase of \$7.9 billion, or 28.1%. In aggregate, expenditures for the five-year period increased (decreased) \$8.2 billion, \$(423) million, \$3.0 billion, \$1.4 billion, and \$4.6 billion in fiscal years 1991-92, 1992-93, 1993-94, 1994-95, and 1995-96, respectively.

Debt Administration: On July 30, 1996, Standard and Poor's Rating Group raised its bond rating for California from "A" to "A+," and in February 1996, Fitch Investors Services raised its rating from "A" to "A+." Moody's Investors Service rating is "A1."

General Obligation Bonds: General obligation bond debt, which is backed by the full faith and credit of the State, decreased from \$19.1 billion on June 30, 1995, to \$18.2 billion on June 30, 1996. This change reflected a decrease of \$871 million, or 4.6%.

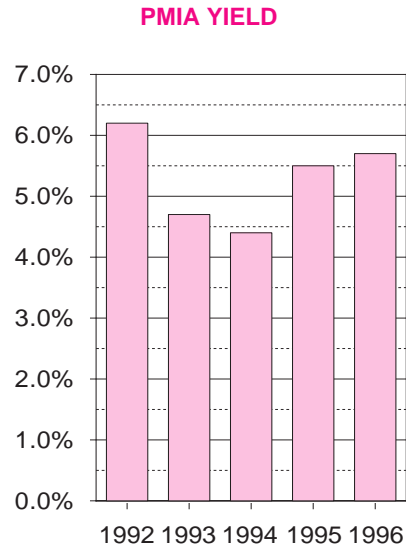
**DEBT SERVICE
EXPENDITURES**
(Amounts in billions)



Five-Year Trend: Total outstanding general obligation bonds have increased from \$15.9 billion in 1992 to \$18.2 billion in 1996. This is an increase of \$2.3 billion, or 14.5%. This trend of increasing bonded debt is mainly attributable to an increase in bonds for education purposes. The cumulative balance of these bonds has grown from \$4.9 billion in 1992 to \$7.6 billion in 1996, which reflects an increase of \$2.7 billion, or 55.1%. In aggregate, general obligation bonds for the five-year period increased (decreased) \$3.4 billion, \$1.7 billion, \$0.8 billion, \$0.7 billion, and \$(0.9) billion in fiscal years 1991-92, 1992-93, 1993-94, 1994-95, and 1995-96, respectively.

Debt Service: Principal retirement expenditures for the State's General Fund, special revenue funds, and capital projects funds totaled \$1.0 billion for the fiscal year ended June 30, 1996. This change reflected an increase of \$86 million, or 9.0%, over the previous year. Interest and fiscal charges for these funds totaled \$1.2 billion for the fiscal year ended June 30, 1996. This was a decrease of \$125 million, or 9.4%.

Five-Year Trend: General Fund, special revenue funds, and capital projects funds principal retirement expenditures



increased from \$523 million in 1992 to approximately \$1.0 billion in 1996, which was an increase of \$518 million or 99.0%. Interest and fiscal charges increased from \$910 million in 1992 to approximately \$1.2 billion in 1996, which was an increase of \$269 million, or 29.3%.

Cash Management Policies and Practices: Cash temporarily idle during the year was invested in the Pooled Money Investment Account (PMIA). The investment of the PMIA is restricted by law to the following categories: U.S. Government securities, securities of federally sponsored agencies, domestic corporate bonds, bank notes, interest-bearing time deposits in California banks and savings and loan associations, prime commercial paper, repurchase and reverse repurchase agreements, security loans, bankers' acceptances, negotiable certificates of deposit, and loans to various bond funds. The average daily investment balance for fiscal year 1995-96 amounted to \$26.6 billion, with an average effective yield of 5.8%. For the 1994-95 fiscal year, the average daily investment was \$26.8 billion and the average effective yield was 5.53%.

The *Pooled Money Investment Board's 40th Annual Report for Fiscal Year 1995-96* disclosed that the total earnings of the PMIA in the 1995-96 fiscal year amounted to \$1.5 billion. Of this amount, \$282 million was distributed to the General Fund, \$662 million to special funds, \$570 million to local governments, \$2 million to the Public Employees' Retirement System, and \$3 million to the State Teachers' Retirement System. The Pooled Money Investment Account Portfolio is shown in Table 3.

Table 3

Pooled Money Investment Account Portfolio

Year Ended June 30, 1996 (Amounts in thousands)

Function	Average Daily Portfolio	Percent of Portfolio	Annual Earnings	Average Effective Yield
Money market.....	\$ 12,740,224	47.9 %	\$ 731,133	5.7 %
Government securities.....	10,901,538	40.9	608,191	5.6
Corporate bonds.....	1,271,004	4.8	79,233	6.2
Loans to other funds.....	1,537,975	5.8	88,001	5.7
Repurchase agreements.....	183,166	0.7	10,289	5.6
Time deposits.....	351,060	1.3	19,416	5.5
Reverse repurchase agreements.....	(361,771)	(1.4)	10,289	(2.8)
Total.....	\$ 26,623,196	100.0 %	\$ 1,546,552	5.8

General Fund Balance: The State's General Fund ended fiscal year 1995-96 with a budgetary fund balance of \$1.1 billion and a

negative fund balance of \$769 million using generally accepted accounting principles. The budgetary fund balance is made up of \$2.2 billion in reserves and a deficit of \$1.1 billion in the unreserved-undesignated portion of the fund balance. The reserves represent that portion of the fund balance that is not available for appropriation or that is legally set aside for specific uses. The unreserved-undesignated portion represents the amount available without restrictions to fund the subsequent year's budget. Because there was a deficit, no carry-over funds from the fiscal year 1995-96 are available to finance the fiscal year 1996-97 budgetary plan. In addition, the General Fund needs to increase \$1.1 billion before funds become available for use as previously designated.

The Special Fund for Economic Uncertainties (the "rainy day fund") was fully depleted, leaving a zero balance at the end of the fiscal year. Annually, an amount is appropriated in the General Fund to replenish the fund. This fund, as the name implies, provides the monies for those necessary expenditures throughout the year that have not been anticipated or provided for in the annual budget. It also provides relief, to the amount of its available funds, for any budgeted revenue shortfalls. The Controller of the State of California is required to transfer to this fund the lesser of the following amounts: (1) the difference between the State's "appropriations subject to limitation" for the fiscal year that ended, and its "appropriation limit" as defined in the Budget Act for that fiscal year, and (2) the unencumbered balance in the General Fund.

Proprietary Operations: Proprietary fund types present financial data on state activities that are similar to those found in the private sector. Users are charged for the goods or services provided.

Enterprise funds account for goods or services provided to the general public on a continuing basis when the cost involved is to be financed or recovered primarily by user charges. Enterprise funds earned approximately \$3.9 billion in operating revenues and had \$2.8 billion in operating expenses for the year ended June 30, 1996.

Internal service funds account for state activities that provide goods and services to other state departments or agencies on a cost reimbursement basis. Internal service funds earned approximately \$1.1 billion in operating revenues and had \$1.2 billion in operating expenses for the year ended June 30, 1996.

Fiduciary Operations: Fiduciary fund types are used to account for assets held by the State as a trustee or agent. The State reports three fiduciary fund types: expendable trust funds, which account for assets held in a trustee capacity when both principal and income (earnings on principal) may be expended in the course of a fund's designated operations; pension trust funds,

which account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems; and agency funds, which account for assets held by the State and where the State acts as an agent for individuals, private organizations, other governments, or other funds. Expendable trust funds earned approximately \$7.7 billion in revenues and had \$6.8 billion in expenditures for the fiscal year ended June 30, 1996. Pension funds had \$26.9 billion in additions and \$7.0 billion in deductions to the net assets available for plan benefits. Agency funds had assets and liabilities of \$29.1 billion as of June 30, 1996.

Risk Management: The State has elected, with a few exceptions, to be self-insured against loss or liability. The State generally does not maintain reserves. Losses are covered by appropriations in the year in which the payment occurs. Workers' compensation benefits for self-insured agencies are initially paid by the State Compensation Insurance Fund. The State Compensation Insurance Fund estimated the liability for future workers' compensation claims against the State's self-insured agencies to be approximately \$733 million as of June 30, 1996. The liability of \$89 million is being reported in the General Fund, \$58 million in special revenue funds, \$20 million in proprietary funds, and \$566 million in the general long-term obligation account group.

Independent Audit: State statutes require an annual audit of the general purpose financial statements of the State. To meet this requirement, the State Auditor has examined the accompanying financial statements in accordance with government auditing standards issued by the Comptroller General of the United States and generally accepted auditing standards. The auditor's report on the general purpose financial statements and combining and individual fund statements and schedules is included in this report.

The State of California is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget's Circular A-128, Audits of State and Local Governments. Generally accepted auditing standards and the standards set forth in the General Accounting Office's Governmental Auditing Standards were used by the auditors in conducting the engagement. Information related to this single audit, including a schedule of federal financial assistance, the independent auditor's report on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs are included in a separately issued single audit report.

Acknowledgements: The preparation of this report could not have been accomplished without the efficient and dedicated services of state agency accounting departments and the staff of the State Controller's Division of Accounting and Reporting. We would like to express our appreciation to all those who contributed to the preparation of this report.

Principal Officials of the State of California

Executive Branch

Pete Wilson
Governor

Gray Davis
Lieutenant Governor

Kathleen Connell
State Controller

Dan Lungren
Attorney General

Matt Fong
State Treasurer

Bill Jones
Secretary of State

Delaine Eastin
Superintendent of Public Instruction

Chuck Quackenbush
Insurance Commissioner

Board of Equalization

Johan Klehs, Member, First District
Dean F. Andal, Member, Second District
Ernest J. Dronenburg Jr., Member, Third District
Brad Sherman, Member, Fourth District

Legislative Branch

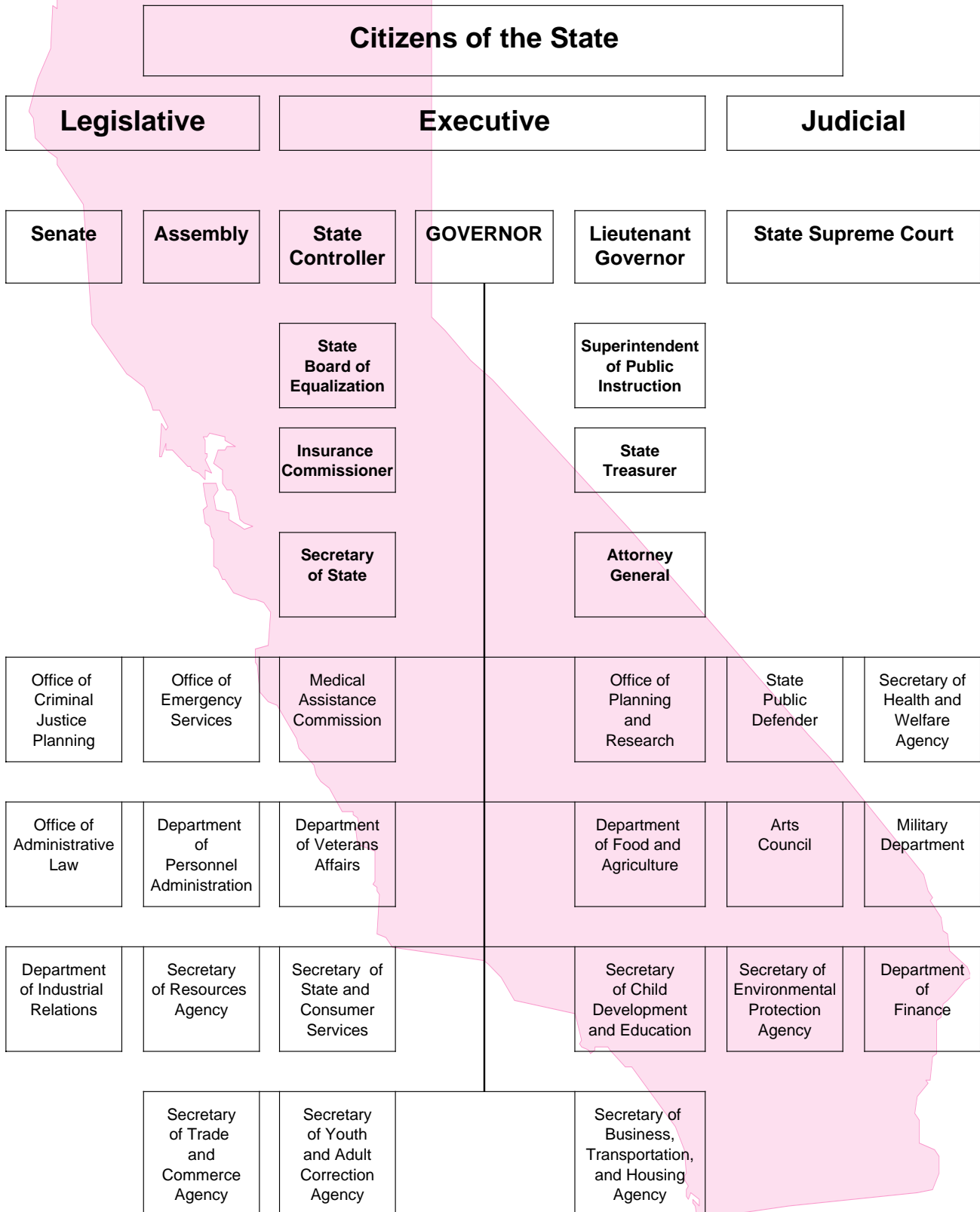
Bill Lockyer
President pro Tempore, Senate

Cruz Bustamante
Speaker of the Assembly

Judicial Branch

Malcolm M. Lucas
Chief Justice, State Supreme Court

Organization Chart of the State of California



Financial Section



CALIFORNIA STATE AUDITOR

KURT R. SJOBERG
STATE AUDITOR

MARIANNE P. EVASHENK
CHIEF DEPUTY STATE AUDITOR

Independent Auditors' Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

We have audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1996, as listed in the table of contents. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the pension trust funds, which reflect total assets constituting 82 percent of the fiduciary funds. We also did not audit the financial statements of certain enterprise funds, which reflect total assets and revenues, constituting 86 percent and 90 percent, respectively, of the enterprise funds. In addition, we did not audit the University of California funds. Finally, we did not audit the financial statements of certain component unit authorities, which reflect total assets and revenues, constituting 97 percent and 95 percent, respectively, of the component unit authorities. The financial statements of the pension trust funds, certain enterprise funds, the University of California funds, and certain component unit authorities referred to above were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these funds and entities is based solely upon the reports of the other auditors.

We conducted our audit in accordance with government auditing standards issued by the Comptroller General of the United States and generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the general purpose financial statements as listed in the table of contents present fairly, in all material respects, the financial position of the State of California as of June 30, 1996, and the results of its operations and the cash flows of its proprietary funds and component unit authorities for the year then ended, in conformity with generally accepted accounting principles.

BUREAU OF STATE AUDITS

660 J Street, Suite 300, Sacramento, California 95814 Telephone (916) 445-0255 Fax: (916) 327-0019

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of California. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based upon our audit and the reports of other auditors, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report, and accordingly, we express no opinion on them. In accordance with government auditing standards, reports on the State's internal control structure and on its compliance with laws and regulations will be issued in our single audit report.

BUREAU OF STATE AUDITS


PHILIP J. JELICICH, CPA
Deputy State Auditor

November 27, 1996

General Purpose Financial Statements

Combined Balance Sheet

All Fund Types, Account Groups, and Discretely Presented Component Units

June 30, 1996

(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
ASSETS:					
Cash and pooled investments (Note 3).....	\$ 141,230	\$ 3,321,793	\$ 56,245	\$ 3,148,359	\$ 181,425
Investments (Note 3).....	—	—	2,955	3,682,138	—
Amount on deposit with U.S. Treasury.....	—	—	—	—	—
Receivables (net).....	78,026	352,842	1,278	98,252	2,299
Due from other funds (Note 4).....	4,824,173	2,815,372	72,542	241,647	276,089
Due from primary government.....	—	—	—	—	—
Due from other governments.....	161,494	4,507,110	13	66,419	17,022
Prepaid items.....	—	—	—	26,018	13,380
Food stamps (Note 1B).....	—	504,262	—	—	—
Inventories, at cost.....	—	—	—	22,471	79,667
Net investment in direct financing leases (Note 6).....	—	—	—	4,153,448	—
Advances and loans receivable.....	762,497	1,300,670	—	2,858,580	—
Deferred charges.....	—	—	—	1,069,593	—
Fixed assets (Note 7).....	—	—	—	5,460,420	248,354
Other assets.....	1,041	227,164	148	59,327	9,147
Amount to be provided for retirement of long-term obligations.....	—	—	—	—	—
Total Assets.....	\$ 5,968,461	\$ 13,029,213	\$ 133,181	\$ 20,886,672	\$ 827,383

Fiduciary Fund Type				Total Primary Government (Memorandum Only)	Component Units		Total Reporting Entity (Memorandum Only)
Trust and Agency	General Fixed Assets	General Long-Term Obligations			University of California	Special Purpose Authorities	
\$ 16,956,574	\$ —	\$ —		\$ 23,805,626	\$ 51,603	\$ 614,114	\$ 24,471,343
165,533,261	—	—		169,218,354	32,299,038	6,893,781	208,411,173
2,914,135	—	—		2,914,135	—	—	2,914,135
11,257,385	—	—		11,790,082	1,426,708	216,999	13,433,789
6,982,839	—	—		15,212,662	138,250	739	15,351,651
—	—	—		—	111,249	13,511	124,760
656,530	—	—		5,408,588	107,531	—	5,516,119
22,862	—	—		62,260	—	—	62,260
—	—	—		504,262	—	—	504,262
—	—	—		102,138	98,123	—	200,261
—	—	—		4,153,448	—	—	4,153,448
1,405,426	—	—		6,327,173	—	3,736,134	10,063,307
—	—	—		1,069,593	57,535	3,934	1,131,062
—	15,027,958	—		20,736,732	13,447,986	531,456	34,716,174
124,960	—	—		421,787	3,675	813,305	1,238,767
—	—	20,471,193		20,471,193	—	—	20,471,193
\$ 205,853,972	\$ 15,027,958	\$ 20,471,193		\$ 282,198,033	\$ 47,741,698	\$ 12,823,973	\$ 342,763,704

(Continued)

Combined Balance Sheet

All Fund Types, Account Groups, and Discretely Presented Component Units

June 30, 1996

(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
LIABILITIES:					
Accounts payable.....	\$ 824,242	\$ 956,297	\$ 20,309	\$ 217,093	\$ 90,638
Due to other funds (Note 4).....	4,205,258	4,161,421	35,553	335,898	117,910
Due to component units (Note 4).....	182,122	85,955	—	2,579	18,884
Due to other governments.....	1,035,121	1,521,657	5,493	106,405	51
Dividends payable.....	—	—	—	—	—
Deferred revenue (Note 1B).....	—	504,262	—	—	—
Advances from other funds.....	343,378	42,664	1,138	199,777	94,886
Tax overpayments.....	—	5,818	—	—	—
Benefits payable.....	—	—	—	83,059	—
Deposits.....	6	13,358	—	6,438	1,796
Contracts and notes payable.....	—	—	—	653	57,437
Lottery prizes and annuities.....	—	—	—	2,526,650	—
Compensated absences payable (Note 9).....	94,633	—	—	32,448	36,694
Certificates of participation, commercial paper, and other borrowings (Note 10,11).....	—	—	—	21,000	—
Net assets available for benefits.....	—	—	—	—	—
Capital lease obligations (Note 12).....	—	—	—	313	32,334
Advance collections.....	22,761	86,721	196	347,857	144,222
General obligation bonds payable (Note 14).....	—	—	—	3,982,285	—
Revenue bonds payable (Note 15).....	—	—	—	8,418,904	—
Interest payable.....	—	—	19,882	175,071	—
Other liabilities.....	29,720	45,873	—	14,753	4,991
Total Liabilities.....	6,737,241	7,424,026	82,571	16,471,183	599,843
FUND EQUITY AND OTHER CREDITS:					
Contributed capital (Note 1K,17C).....	—	—	—	216,247	112,239
Investment in general fixed assets (Notes 1K,7).....	—	—	—	—	—
Retained earnings:					
Reserved for regulatory requirements (Note 1K).....	—	—	—	142,492	—
Unreserved (Note 1K).....	—	—	—	4,056,750	115,301
Total Retained Earnings.....	—	—	—	4,199,242	115,301
Fund balances:					
Reserved for:					
Encumbrances (Note 1K).....	450,821	1,623,118	116,074	—	—
Advances and loans (Note 1K).....	762,497	1,300,670	—	—	—
Employees' Pension Benefits (Note 1K).....	—	—	—	—	—
Continuing appropriations (Note 1K).....	123,036	3,233,571	28,442	—	—
Other specific purposes (Notes 1K,17A).....	—	—	—	—	—
Total Reserved.....	1,336,354	6,157,359	144,516	—	—
Unreserved:					
Undesignated (Deficit) (Note 1K).....	(2,105,134)	(552,172)	(93,906)	—	—
Total Fund Equity and Other Credits (Deficit) (Notes 1K,17B).....	(768,780)	5,605,187	50,610	4,415,489	227,540
Total Liabilities, Fund Equity, and Other Credits....	\$ 5,968,461	\$ 13,029,213	\$ 133,181	\$ 20,886,672	\$ 827,383

Fiduciary Fund Type			Total Primary Government (Memorandum Only)	Component Units		Total Reporting Entity (Memorandum Only)
	Trust and Agency	General Fixed Assets		University of California	Special Purpose Authorities	
\$ 6,716,800	\$ —	\$ —	\$ 8,825,379	\$ 1,390,451	\$ 115,242	\$ 10,331,072
6,356,618	—	—	15,212,658	138,250	743	15,351,651
2,519	—	—	292,059	—	—	292,059
14,182,635	—	—	16,851,362	—	—	16,851,362
—	—	—	—	—	60,000	60,000
—	—	—	504,262	—	—	504,262
644,760	—	—	1,326,603	—	—	1,326,603
1,249,041	—	—	1,254,859	—	—	1,254,859
774,002	—	—	857,061	—	4,619,802	5,476,863
3,262,546	—	—	3,284,144	493,096	833	3,778,073
—	—	—	58,090	—	48,853	106,943
—	—	—	2,526,650	—	—	2,526,650
—	—	1,156,073	1,319,848	277,121	24,439	1,621,408
—	—	260,395	281,395	856,742	—	1,138,137
—	—	—	—	27,509,751	—	27,509,751
—	—	2,993,592	3,026,239	1,180,593	—	4,206,832
83,371	—	—	685,128	—	230,098	915,226
—	—	14,224,172	18,206,457	—	—	18,206,457
—	—	239,395	8,658,299	1,866,750	4,337,755	14,862,804
—	—	—	194,953	—	114,804	309,757
1,160,267	—	1,597,566	2,853,170	—	822,284	3,675,454
34,432,559	—	20,471,193	86,218,616	33,712,754	10,374,853	130,306,223
—	—	—	328,486	—	—	328,486
—	15,027,958	—	15,027,958	9,712,306	—	24,740,264
—	—	—	142,492	—	516,893	659,385
—	—	—	4,172,051	—	1,932,227	6,104,278
—	—	—	4,314,543	—	2,449,120	6,763,663
3	—	—	2,190,016	—	—	2,190,016
505,864	—	—	2,569,031	—	—	2,569,031
165,272,217	—	—	165,272,217	—	—	165,272,217
—	—	—	3,385,049	—	—	3,385,049
5,643,329	—	—	5,643,329	2,163,865	—	7,807,194
171,421,413	—	—	179,059,642	2,163,865	—	181,223,507
—	—	—	(2,751,212)	2,152,773	—	(598,439)
—	15,027,958	—	24,558,004	14,028,944	2,449,120	41,036,068
\$ 205,853,972	\$ 15,027,958	\$ 20,471,193	\$ 282,198,033	\$ 47,741,698	\$ 12,823,973	\$ 342,763,704

(Concluded)

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

All Governmental Fund Types and Expendable Trust Funds

Year Ended June 30, 1996

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Types	Total Primary Government (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
REVENUES:					
Taxes.....	\$ 44,658,962	\$ 4,147,202	\$ —	\$ 5,448,653	\$ 54,254,817
Intergovernmental.....	—	24,337,762	—	—	24,337,762
Licenses and permits.....	110,128	2,828,411	—	—	2,938,539
Natural resources.....	72,985	53	—	—	73,038
Insurance premiums.....	—	—	—	756,138	756,138
Charges for services.....	136,735	251,965	—	9,138	397,838
Fees.....	265,358	1,234,463	—	43,449	1,543,270
Penalties.....	155,012	247,433	—	24,129	426,574
Interest.....	341,521	150,351	4,015	298,997	794,884
Other.....	96,442	875,219	2,766	1,104,266	2,078,693
Total Revenues.....	45,837,143	34,072,859	6,781	7,684,770	87,601,553
EXPENDITURES:					
Current:					
General government.....	1,597,179	1,589,767	13	888,608	4,075,567
Education.....	20,895,700	3,079,246	3,547	855,633	24,834,126
Health and welfare.....	14,084,938	21,916,424	—	4,950,440	40,951,802
Resources.....	501,778	1,314,585	7,006	45,571	1,868,940
State and consumer services.....	345,791	330,121	—	22,660	698,572
Business and transportation.....	40,209	5,559,326	26	12,834	5,612,395
Correctional programs.....	3,616,969	75,727	—	—	3,692,696
Property tax relief.....	467,127	3,000	—	—	470,127
Capital outlay.....	839,717	44,933	275,711	—	1,160,361
Debt service:					
Principal retirement.....	1,015,416	5,064	20,090	—	1,040,570
Interest and fiscal charges.....	1,126,469	29,253	21,981	—	1,177,703
Total Expenditures.....	44,531,293	33,947,446	328,374	6,775,746	85,582,859
Excess (Deficiency) of Revenues					
Over (Under) Expenditures.....	1,305,850	125,413	(321,593)	909,024	2,018,694
OTHER FINANCING SOURCES (USES):					
Proceeds from general obligation bonds, commercial paper, and capital leases.....	839,717	355,514	154,984	—	1,350,215
Proceeds from refunding bonds.....	—	113,585	206,891	—	320,476
Operating transfers in.....	479,466	1,913,104	50,501	334,312	2,777,383
Operating transfers out.....	(217,440)	(2,239,842)	(11,041)	(310,824)	(2,779,147)
Transfers out - component unit.....	(2,040,406)	(19,136)	(51,971)	—	(2,111,513)
Payment to refunding bond escrow agent.....	—	(113,585)	(206,891)	—	(320,476)
Total Other Financing Sources (Uses).....	(938,663)	9,640	142,473	23,488	(763,062)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and					
Other Financing Uses.....	367,187	135,053	(179,120)	932,512	1,255,632
Fund Balances (Deficit), July 1, 1995.....	(1,135,967)	5,470,134	229,730	5,216,684	9,780,581
Fund Balances (Deficit), June 30, 1996.....	\$ (768,780)	\$ 5,605,187	\$ 50,610	\$ 6,149,196	\$ 11,036,213

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budgetary Basis - Budget and Actual All Governmental Fund Types

Year Ended June 30, 1996

(Amounts in thousands)

	General			Special Revenue		
	Budget (Note 2A)	Actual	Variance Favorable (Unfavorable)	Budget (Note 2A)	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Taxes.....	—	\$ 44,756,337	—	—	\$ 153,341	—
Intergovernmental.....	—	—	—	—	21,659,268	—
Licenses and permits.....	—	106,576	—	—	2,828,411	—
Natural resources.....	—	71,483	—	—	53	—
Charges for services.....	—	50,963	—	—	251,965	—
Fees.....	—	260,610	—	—	1,234,047	—
Penalties.....	—	170,139	—	—	248,039	—
Interest.....	—	326,823	—	—	150,319	—
Other.....	—	339,159	—	—	1,107,579	—
Total Revenues.....	—	46,082,090	—	—	27,633,022	—
EXPENDITURES:						
Current:						
General government.....	\$ 1,615,739	1,562,051	\$ 53,688	\$ 1,640,692	1,581,226	\$ 59,466
Education.....	21,987,707	21,921,078	66,629	3,005,475	2,961,970	43,505
Health and welfare.....	14,629,658	14,249,518	380,140	20,826,512	19,303,167	1,523,345
Resources.....	499,748	495,707	4,041	1,589,741	1,411,965	177,776
State and consumer services.....	362,600	345,504	17,096	371,427	330,029	41,398
Business and transportation.....	44,550	41,448	3,102	6,345,390	5,641,500	703,890
Correctional programs.....	3,618,944	3,606,296	12,648	78,567	75,727	2,840
Property tax relief.....	482,208	474,179	8,029	15,800	3,000	12,800
Capital outlay.....	—	—	—	51,969	44,933	7,036
Debt service:						
Principal retirement.....	1,255,605	1,255,605	—	168,153	168,153	—
Interest and fiscal charges.....	923,084	897,765	25,319	100,562	100,374	188
Total Expenditures.....	\$ 45,419,843	44,849,151	\$ 570,692	\$ 34,194,288	31,622,044	\$ 2,572,244
OTHER FINANCING SOURCES (USES):						
Operating transfers in.....	—	4,602,244	—	—	13,477,917	—
Operating transfers out.....	—	(4,481,123)	—	—	(9,665,167)	—
Bonds authorized.....	—	—	—	—	2,025,000	—
Net Other Financing Sources (Uses).....	—	121,121	—	—	5,837,750	—
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....	—	1,354,060	—	—	1,848,728	—
Fund Balances (Deficit), July 1, 1995.....	—	(280,209) *	—	—	6,229,564	—
Fund Balances (Deficit), June 30, 1996.....	—	\$ 1,073,851	—	—	\$ 8,078,292	—

* Restated (see Note 2)

(Continued)

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budgetary Basis - Budget and Actual All Governmental Fund Types

Year Ended June 30, 1996

(Amounts in thousands)

	Capital Projects		
	Budget (Note 2A)	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Interest.....	—	\$ 1,371	—
Other.....	—	49,226	—
Total Revenues.....	—	50,597	—
EXPENDITURES:			
Current:			
Education.....	\$ 8,404	4,692	\$ 3,712
Resources.....	14,628	7,005	7,623
State and consumer services.....	46,526	16,249	30,277
Capital outlay.....	331,877	312,454	19,423
Debt service:			
Principal retirement.....	17,795	17,795	—
Interest and fiscal charges.....	4,604	4,604	—
Total Expenditures.....	\$ 423,834	362,799	\$ 61,035
OTHER FINANCING SOURCES (USES):			
Operating transfers in.....	—	154,973	—
Operating transfers out.....	—	(137,081)	—
Bonds authorized.....	—	2,975,000	—
Net Other Financing Sources (Uses).....	—	2,992,892	—
Excess of Revenues and Other Financing Sources Over (Under)			
Expenditures and Other Financing Uses.....	—	2,680,690	—
Fund Balances (Deficit), July 1, 1995.....	—	911,076	—
Fund Balances (Deficit), June 30, 1996.....	—	\$ 3,591,766	—

(Concluded)

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings

All Proprietary Fund Types and Discretely Presented Component Units – Special Purpose Authorities

Year Ended June 30, 1996

(Amounts in thousands)

	Proprietary Fund Types		Total Primary Government (Memorandum Only)	Component Units Special Purpose Authorities	Total Reporting Entity (Memorandum Only)
	Enterprise	Internal Service			
OPERATING REVENUES:					
Lottery ticket sales.....	\$ 2,292,325	\$ —	\$ 2,292,325	\$ —	\$ 2,292,325
Service and sales.....	971,506	1,135,979	2,107,485	105,951	2,213,436
Earned premiums (net).....	21,159	—	21,159	1,077,384	1,098,543
Investment and interest.....	302,221	—	302,221	342,740	644,961
Contributions.....	—	—	—	2,071	2,071
Rent.....	319,816	—	319,816	17,683	337,499
Other.....	2,109	—	2,109	7,801	9,910
Total Operating Revenues.....	3,909,136	1,135,979	5,045,115	1,553,630	6,598,745
OPERATING EXPENSES:					
Lottery prizes.....	1,128,453	—	1,128,453	—	1,128,453
Personal services.....	278,129	306,771	584,900	112,219	697,119
Supplies.....	76,156	18,224	94,380	2,719	97,099
Services and charges.....	691,298	782,830	1,474,128	221,348	1,695,476
Depreciation.....	75,186	50,675	125,861	11,552	137,413
Benefit payments.....	29,372	—	29,372	953,491	982,863
Interest expense.....	511,174	4,708	515,882	274,501	790,383
Amortization (recovery) of deferred charges.....	(17,978)	—	(17,978)	2,238	(15,740)
Total Operating Expenses.....	2,771,790	1,163,208	3,934,998	1,578,068	5,513,066
Operating Income (Loss).....	1,137,346	(27,229)	1,110,117	(24,438)	1,085,679
NONOPERATING REVENUES (EXPENSES):					
Grants received.....	481	—	481	72,470	72,951
Grants provided.....	(13,276)	—	(13,276)	(72,470)	(85,746)
Interest revenue.....	143,012	1,589	144,601	490,165	634,766
Interest expense and fiscal charges.....	(188,130)	(2,583)	(190,713)	(2,722)	(193,435)
Dividends paid.....	—	—	—	(281,513)	(281,513)
Lottery payments for education.....	(815,189)	—	(815,189)	—	(815,189)
Other.....	(13,946)	(1,229)	(15,175)	(3,514)	(18,689)
Payment to refunded bond escrow agent.....	(2,211)	—	(2,211)	—	(2,211)
Total Nonoperating Revenues (Expenses).....	(889,259)	(2,223)	(891,482)	202,416	(689,066)
Income (Loss) Before Operating Transfers.....	248,087	(29,452)	218,635	177,978	396,613
OPERATING TRANSFERS:					
Operating transfers in.....	80,829	13,011	93,840	—	93,840
Operating transfers out.....	(88,656)	(3,420)	(92,076)	—	(92,076)
Total Operating Transfers.....	(7,827)	9,591	1,764	—	1,764
Net Income (Loss).....	240,260	(19,861)	220,399	177,978	398,377
Retained Earnings, July 1, 1995.....	3,958,982 *	135,162	4,094,144	2,271,142	6,365,286
Retained Earnings, June 30, 1996.....	\$ 4,199,242	\$ 115,301	\$ 4,314,543	\$ 2,449,120	\$ 6,763,663

* Restated (see Note 1L)

Combined Statement of Cash Flows

All Proprietary Fund Types and Discretely Presented Component Units – Special Purpose Authorities

Year Ended June 30, 1996

(Amounts in thousands)

	Proprietary Fund Types		Component Units
	Enterprise	Internal Service (1)	Special Purpose Authorities
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income (loss).....	\$ 1,137,346	\$ (27,229)	\$ (24,438)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS:			
Interest expense on operating debt.....	(713)	767	274,501
Interest on investments.....	—	—	(73,607)
Depreciation.....	75,186	50,675	11,552
Accretion of capital appreciation bonds.....	10,000	—	9,807
Provisions and allowances.....	2,514	—	3,067
Accrual of deferred charges.....	(6,392)	—	(3,934)
Amortization of deferred credits.....	(3,575)	—	(4,948)
Amortization of discounts.....	(4,658)	—	6,760
Amortization (recovery) of deferred charges.....	(32,187)	—	—
Other.....	9,579	8,191	20,176
Change in assets and liabilities:			
Receivables.....	(184)	(89)	12,440
Due from other funds.....	(27,136)	(12,356)	(113)
Due from primary government.....	—	—	(6,730)
Due from other governments.....	(19,658)	(14,137)	7
Prepaid items.....	(4,096)	1,574	(4)
Inventories.....	(2,563)	(12,630)	—
Net investment in direct financing leases.....	(432,904)	—	—
Advances and loans receivable.....	251	—	—
Other assets.....	(21,400)	283	(456,032)
Accounts payable.....	42,498	12,502	4,720
Interest payable.....	(4,364)	—	—
Due to other funds.....	(82,154)	31,187	408
Due to component units.....	1,177	(5,832)	—
Due to other governments.....	9,102	9	—
Benefits payable.....	(3,533)	—	(271,489)
Deposits.....	83	329	833
Lottery prizes and annuities.....	87,627	—	—
Contract and notes payable.....	(745)	—	—
Compensated absences payable.....	(171)	1,441	4,486
Capital lease obligation.....	313	—	—
Advance collections.....	(12,547)	16,762	(27,583)
Other liabilities.....	12,735	2,140	443,675
Total Adjustments.....	(407,915)	80,816	(52,008)
Net Cash Provided by (Used In) Operating Activities.....	729,431	53,587	(76,446)

(Continued)

(1) **Noncash Transactions** are those portions of investing and financing activities that affected assets and liabilities but did not result in cash receipts or payments during the period. Internal service funds made non-cash transactions for installment purchases totaling \$17 million to acquire equipment.

	Proprietary Fund Types		Component Units
	Enterprise	Internal Service (1)	Special Purpose Authorities
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Dividends paid.....	—	—	(327,013)
Advances from other funds.....	347	10,000	—
Return of advances from other funds.....	—	(2,100)	—
Proceeds from revenue bonds.....	—	—	1,002,452
Retirement of general obligation bonds.....	(214,365)	—	—
Retirement of revenue bonds.....	(65,463)	—	(427,560)
Interest paid on operating debt.....	(1,917)	—	(257,071)
Operating transfers in.....	67,992	13,011	—
Operating transfers out.....	(82,326)	—	—
Grants provided.....	(13,276)	—	—
Other expenses.....	—	(344)	(160)
Lottery payments for education.....	(847,922)	—	—
Net Cash Provided by (Used In) Non-capital Financing Activities.....	(1,156,930)	20,567	(9,352)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Unamortized water project costs.....	1,384	—	—
Acquisition of intangible assets.....	—	(1,787)	—
Acquisition of fixed assets.....	(377,730)	(48,442)	(28,680)
Proceeds from sale of fixed assets.....	262	3,208	2,810
Advances from other funds.....	288,669	946	—
Return of advances from other funds.....	(314,931)	—	—
Proceeds from notes payable and commercial paper.....	244,454	—	3,928
Principal paid on notes payable and commercial paper.....	(277,509)	(18,164)	—
Payment of capital lease obligations.....	—	(1,915)	—
Retirement of general obligation bonds.....	(36,840)	—	—
Proceeds from revenue bonds.....	1,303,216	—	—
Retirement of revenue bonds.....	(431,195)	—	—
Interest paid.....	(195,508)	(3,350)	(2,722)
Contributed capital.....	1,455	1,936	—
Grants received.....	481	—	—
Operating transfers in.....	1,066	—	—
Operating transfers out.....	(1,064)	—	—
Payment of deferred costs.....	6,070	—	—
Payment to refunding bond escrow agent.....	(162,202)	—	—
Other costs.....	(1,512)	(299)	—
Net Cash Provided by (Used In) Capital and Related Financing Activities.....	48,566	(67,867)	(24,664)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments.....	(324,738)	—	(109,110)
Advances and loans provided.....	(12,169)	(45,000)	(709,861)
Collection of advances and loans.....	171,109	—	224,504
Proceeds from maturity and sale of investments.....	409,892	—	136,396
Interest and gains on investments.....	135,000	2,382	563,772
Net Cash Provided by (Used In) Investing Activities.....	379,094	(42,618)	105,701
Net Increase (Decrease) in Cash and Pooled Investments.....	161	(36,331)	(4,761)
Cash and Pooled Investments at July 1, 1995.....	3,148,198	217,756	618,875
Cash and Pooled Investments at June 30, 1996.....	\$ 3,148,359	\$ 181,425	\$ 614,114

(Concluded)

Combined Statement of Changes in Plan Net Assets

Pension Trust Funds

Year Ended June 30, 1996

(Amounts in thousands)

ADDITIONS:

Contributions:	
Employer.....	\$ 3,808,818
Plan member.....	2,440,895
Total Contributions.....	6,249,713
Investment income:	
Net appreciation (depreciation) in fair value of investments.....	13,815,933
Interest, dividends, and other investment income.....	7,164,292
Less: Investment expense.....	(366,099)
Net Investment Income.....	20,614,126
Other.....	1,850
Total Additions.....	26,865,689

DEDUCTIONS:

Benefits.....	6,503,718
Refunds of contributions.....	207,606
Administrative expense.....	287,216
Total Deductions.....	6,998,540

Net Increase (Decrease) in Fund Balance Reserved for Employees' Pension Benefits.....	19,867,149
Fund Balance Reserved for Employees' Pension Benefits, July 1, 1995.....	145,405,068
Fund Balance Reserved for Employees' Pension Benefits, June 30, 1996.....	\$ 165,272,217

Combined Balance Sheet

Component Unit – University of California

June 30, 1996

(Amounts in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	Retirement System Funds	Total (Memorandum Only)
ASSETS:						
Cash.....	\$ 48,310	\$ —	\$ —	\$ 3,293	\$ —	\$ 51,603
Investments.....	2,458,180	41,652	1,634,270	901,248	27,263,688	32,299,038
Receivables (net).....	966,014	262,011	5,500	542	192,641	1,426,708
Due from other funds.....	1,107	—	12,896	745	123,502	138,250
Due from primary government.....	111,249	—	—	—	—	111,249
Due from other governments.....	96,510	—	—	11,021	—	107,531
Inventories, at cost.....	98,123	—	—	—	—	98,123
Deferred charges.....	57,535	—	—	—	—	57,535
Fixed assets.....	—	—	—	13,447,986	—	13,447,986
Other assets.....	—	—	—	3,675	—	3,675
Total Assets.....	\$ 3,837,028	\$ 303,663	\$ 1,652,666	\$ 14,368,510	\$ 27,579,831	\$ 47,741,698
LIABILITIES AND FUND EQUITY:						
Liabilities:						
Accounts payable.....	\$ 1,275,229	\$ —	\$ 6,932	\$ 38,210	\$ 70,080	\$ 1,390,451
Due to other funds.....	123,502	2,000	—	12,748	—	138,250
Deposits.....	182,824	—	310,272	—	—	493,096
Compensated absences.....	277,121	—	—	—	—	277,121
Mortgages and other borrowings.....	—	—	—	856,742	—	856,742
Net assets available for benefits.....	—	—	—	—	27,509,751	27,509,751
Capital lease obligations.....	—	—	—	1,180,593	—	1,180,593
Revenue bonds payable.....	—	13,995	—	1,852,755	—	1,866,750
Total Liabilities.....	1,858,676	15,995	317,204	3,941,048	27,579,831	33,712,754
Fund Equity:						
Investment in general fixed assets.....	—	—	—	9,712,306	—	9,712,306
Fund balances:						
Reserved for other specific purposes....	595,593	262,823	991,443	314,006	—	2,163,865
Undesignated.....	1,382,759	24,845	344,019	401,150	—	2,152,773
Total Fund Equity.....	1,978,352	287,668	1,335,462	10,427,462	—	14,028,944
Total Liabilities and Fund Equity....	\$ 3,837,028	\$ 303,663	\$ 1,652,666	\$ 14,368,510	\$ 27,579,831	\$ 47,741,698

Combined Statement of Changes in Fund Balances

Component Unit – University of California

Year Ended June 30, 1996

(Amounts in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds
REVENUES AND OTHER ADDITIONS:				
Student tuition and fees.....	\$ 955,202	\$ —	\$ —	\$ 10,803
U.S. Government.....	3,630,328	3,871	—	12,957
Local Government.....	109,461	—	—	—
Private gifts, grants, and contracts.....	527,814	637	11,632	99,490
Investment income:				
Endowment activities.....	91,943	—	667	—
Other.....	144,194	8,258	—	47,636
Realized gains on investments.....	830	—	52,467	6,009
Sales and services:				
Educational activities.....	647,323	—	—	—
Teaching hospitals.....	1,932,239	—	—	—
Auxiliary enterprises.....	541,001	—	—	—
Expended for plant facilities (including \$374,918 of current funds).....	—	—	—	563,893
Retirement of indebtedness.....	—	—	—	139,556
Other revenues.....	214,895	—	—	—
Transfers in - primary government.....	2,060,109	—	—	51,404
Other additions.....	62,156	2,115	2,537	8,587
Total Revenues and Other Additions.....	10,917,495	14,881	67,303	940,335
EXPENDITURES AND OTHER DEDUCTIONS:				
Current fund expenditures:				
Educational and general.....	5,750,311	—	—	—
Teaching hospitals.....	1,865,924	—	—	—
Auxiliary enterprises.....	461,029	—	—	—
Department of Energy Laboratories.....	2,253,663	—	—	—
Plant fund expenditures:				
(including noncapitalized expenditures of \$32,546).....	—	—	—	221,521
Debt service:				
Principal retirement.....	—	—	—	139,556
Interest.....	—	—	—	168,653
Disposal of plant assets.....	—	—	—	217,221
Other.....	60,920	5,959	8,836	354
Total Expenditures and Other Deductions.....	10,391,847	5,959	8,836	747,305
TRANSFERS AMONG FUNDS:				
Mandatory contractual arrangements:				
Net revenues of auxiliary enterprises.....	(43,407)	—	—	43,407
Loan funds matching grants.....	(1,291)	1,291	—	—
Principal and interest.....	(223,852)	—	—	223,852
Nonmandatory (discretionary allocations).....	(237,074)	(4,023)	48,041	193,056
Total Transfers Among Funds.....	(505,624)	(2,732)	48,041	460,315
Net Increase (Decrease) in Fund Balances.....	20,024	6,190	106,508	653,345
Fund Balances, July 1, 1995.....	1,958,328	281,478	1,228,954	9,774,117
Fund Balances, June 30, 1996.....	\$ 1,978,352	\$ 287,668	\$ 1,335,462	\$ 10,427,462

Combined Statement of Current Funds Revenues, Expenditures, and Other Changes

Component Unit – University of California

Year Ended June 30, 1996

(Amounts in thousands)

	Current Funds		Total (Memorandum Only)
	Unrestricted	Restricted	
REVENUES:			
Student tuition and fees.....	\$ 955,202	\$ —	\$ 955,202
U.S. Government appropriations, grants and contracts.....	260,306	1,098,553	1,358,859
Local government grants and contracts.....	1,483	98,437	99,920
Private gifts, grants and contracts.....	39,975	413,876	453,851
Investment income:			
Endowment and similar funds.....	23,455	58,409	81,864
Other.....	113,952	—	113,952
Realized gains (losses) on investments.....	280	—	280
Sales and services:			
Education activities.....	647,323	—	647,323
Teaching hospitals.....	1,932,239	—	1,932,239
Auxiliary enterprises.....	541,001	—	541,001
Department of Energy Laboratories.....	29,167	2,253,663	2,282,830
Other revenues.....	214,895	—	214,895
Transfers in - primary government.....	1,768,288	195,191	1,963,479
Total Revenues.....	6,527,566	4,118,129	10,645,695
EXPENDITURES AND MANDATORY TRANSFERS:			
Educational and general:			
Instructional.....	1,709,475	110,934	1,820,409
Research.....	248,228	1,269,510	1,517,738
Public service.....	93,121	97,747	190,868
Academic support.....	723,166	97,549	820,715
Student services.....	238,814	9,067	247,881
Institutional support.....	451,509	22,093	473,602
Operation and maintenance of plant.....	275,984	674	276,658
Student financial aid.....	153,202	249,238	402,440
Total Educational and General.....	3,893,499	1,856,812	5,750,311
Mandatory transfers:			
Loan fund matching grant.....	538	753	1,291
Debt service.....	90,032	82,314	172,346
Total Mandatory Transfers.....	90,570	83,067	173,637
Teaching Hospitals:			
Expenditures.....	1,862,927	2,997	1,865,924
Mandatory transfers.....	20,603	—	20,603
Total Teaching Hospitals.....	1,883,530	2,997	1,886,527
Auxiliary enterprises:			
Expenditures.....	456,372	4,657	461,029
Mandatory transfers.....	74,310	—	74,310
Total Auxiliary Enterprises.....	530,682	4,657	535,339
Department of Energy Laboratories.....	—	2,253,663	2,253,663
Total Expenditures and Mandatory Transfers.....	6,398,281	4,201,196	10,599,477
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):			
Restricted receipts in excess of restricted expenditures.....	—	209,644	209,644
Nonmandatory transfers.....	(159,455)	(77,619)	(237,074)
Other.....	1,637	(401)	1,236
Total Other Transfers and Additions (Deductions).....	(157,818)	131,624	(26,194)
Net Increase (Decrease) in Fund Balances.....	\$ (28,533)	\$ 48,557	\$ 20,024

The notes to the financial statements are an integral part of this statement.

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Notes to the Financial Statements

NOTE 1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The general purpose financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. As required by generally accepted accounting principles, these financial statements present the government and its component units.

Component units are organizations which are legally separate from the State but for which the State is financially accountable, or for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The decision to include a potential component unit in the State's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. The following is a brief review of the two types of component units, blended and discretely presented, using these criteria.

1. Blended Component Units

Blended component units, although legally separate entities, are, in substance, part of the government's operations. Data from these units are combined with data of the primary government.

Building Authorities have been created through the use of Joint Exercise of Powers Agreements with various cities to finance the construction of state buildings. The building authorities are legally separate from the State of California. They meet the criteria of blended component units and are being reported as capital projects funds. As a result, the capital lease arrangements between the building authorities and the State of \$320 million have been eliminated from the combined balance sheet. Instead, only the underlying fixed assets and the debt used to acquire them are reported in the appropriate account groups (see Note 25).

2. Discretely Presented Component Units

Component units that are discretely presented in the general purpose financial statements are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the state government. Discretely presented component units primarily provide services to entities and individuals outside the State. For ease of presentation, discretely presented component units other than the University of California are included in the statements under the heading of Special Purpose Authorities.

The **University of California** was founded in 1868 as a public, state-supported, land grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by a governing board, the Regents of the University of California. Though the University of California is legally separate from the State, it is a component unit of the State because the State appoints a voting majority of the Regents of the University of California, and expenditures for the support of various University of California programs and capital outlay are appropriated by the annual Budget Act. The University of California is discretely presented in the financial statements. Information about the University of California concerning the definition of the financial reporting entity and the summary of significant accounting policies are provided in Note 26A.

Special Purpose Authorities are legally separate from the State. These authorities are presented in three separate categories: State Compensation Insurance Fund (SCIF), California Housing Finance Agency (CHFA), and Non-Major Component Units. SCIF and CHFA component units are considered major component units for financial reporting purposes, and are thus shown separately in the notes while all other component units are shown in the Non-Major Component Units category. The inclusion of these authorities in the State's general purpose financial statements reflects the State's financial accountability for them. Information about special purpose authorities concerning the definition of the financial reporting entity and the summary of significant accounting policies are provided in Note 26B.

B. Basis of Presentation

The accompanying financial statements present the financial position and the results of operations of the State for the year ended June 30, 1996. The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The State recognizes the distribution of food stamp benefits as revenue and expenditures in the special revenue fund type, as required by GASB. Revenue and expenditures are recognized when the benefits are distributed to the recipients. Food stamp balances held by the counties are reported as an asset and offset by deferred revenue. Revenues, expenditures, and balances of food stamp benefits are measured based on face value.

C. Fund Accounting

The accounts of the State of California are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting

device to account for certain assets and liabilities of the governmental funds that are not recorded directly in those funds.

The financial activities of the State accounted for in the accompanying financial statements have been classified as follows:

Governmental Fund Types are used primarily to account for services provided to the general public without charging directly for those services. The State has three governmental fund types:

The *General Fund* is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that do not need to be accounted for in another fund.

Special Revenue Funds account for transactions related to resources obtained from specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds account for transactions related to resources obtained and used to acquire or construct major capital facilities.

Proprietary Fund Types present financial data on state activities that are similar to those found in the private sector. Users are charged for the goods or services provided. Pursuant to GASB Statement No. 20, the State of California applies all applicable GASB pronouncements as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements for its proprietary funds. However, the State of California has elected not to apply FASB Statements and Interpretations issued after November 30, 1989, with one exception. The exception is the Prison Industries Revolving Fund (an internal service fund), which has elected to follow FASB pronouncements issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements. The proprietary fund types are as follows:

Enterprise Funds account for goods or services provided to the general public on a continuing basis either: (1) when the State intends that all or most of the cost involved is to be financed by user charges, or (2) when periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Internal Service Funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis.

Fiduciary Fund Types are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. The fiduciary fund types are as follows:

Expendable Trust Funds account for assets held in a trustee capacity when both principal and income (earnings on principal) may be expended in the course of a fund's designated operations.

Pension Trust Funds account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems. The provisions of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* have been implemented. However, the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* which are effective for periods beginning after June 15, 1997, have not been implemented.

Agency Funds account for assets held by the State, which acts as an agent for individuals, private organizations, other governments, or other funds. They are custodial in nature and do not measure the results of operations.

Account Groups are used to establish control over and accountability for the government's general fixed assets and general long-term obligations. The account groups are as follows:

The General Fixed Assets Account Group accounts for governmental fixed assets not reported in a proprietary fund or a trust fund.

The General Long-Term Obligations Account Group accounts for unmatured general obligation bonds and other long-term obligations generally expected to be financed from governmental funds.

D. Measurement Focus and Basis of Accounting

Governmental Fund Types and **Expendable Trust Funds** are presented using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets; the unreserved fund balance is a measure of available spendable resources.

The accounts of the governmental fund types and expendable trust funds are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. Principal tax revenues susceptible to accrual are recorded by the State as taxpayers earn income (personal income and bank and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments. Other revenue sources are recorded when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months.

Compensated absences are accounted for on a modified accrual basis of accounting. The liability for earned leave of academic-year

faculty of the California State University and the special schools of the California State Department of Education is accrued at June 30, as explained in Note 1J. No additional expenditures are accrued since it is not anticipated that compensated absences will be used in excess of a normal year's accumulation.

Agency Funds are custodial in nature and do not measure the results of operations. Assets and liabilities are recorded using the modified accrual basis of accounting.

Proprietary Fund Types and Pension Trust Funds are accounted for on the flow of economic resources measurement focus.

The accounts of the proprietary fund types and pension trust funds are reported using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Lottery revenue and the related prize expense are recognized when sales are made. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

For purposes of the statement of cash flows, the State considers all cash and pooled investments in the State's pooled investment program, as discussed in Note 3, to be cash and cash equivalents.

E. Inventories

Inventories are primarily stated at either the lower of average cost or market, or at cost utilizing the weighted average valuation method. In governmental fund types, inventories are recorded as expenditures when purchased. In proprietary fund types, inventories are expensed when consumed.

F. Net Investment in Direct Financing Leases

The State Public Works Board has entered into lease-purchase agreements with various state agencies, the University of California, and community colleges (see Note 6). The payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the construction of facilities for correctional and higher educational institutions, as well as energy efficiency projects for various state agencies. Upon expiration of these leases, jurisdiction of the facilities and projects will be with the respective institution, agency, or community college.

The State Public Works Board has entered into various capital lease agreements with the University of California, and in addition issues revenue bonds to finance the construction of these leased facilities. The State Public Works Board, which is audited by other auditors, records the net investment in direct financing leases at the net present value of the minimum lease payments.

G. Deferred Charges

The deferred charges account in the enterprise fund type primarily represents operating and maintenance costs and unrecovered

capital costs that will be recognized as expenses over the remaining life of long-term state water supply contracts. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as deferred charges. These charges are recognized when billed in future years under the terms of the state water supply contracts.

H. Fixed Assets

The **General Fixed Assets Account Group** includes capital assets that are not assets of any specific fund, but rather of the government as a whole. Most of these assets arise from the expenditure of the financial resources of governmental funds and expendable trust funds used to acquire or construct them. The General Fixed Assets Account Group does not include fixed assets of proprietary funds or pension trust funds. These fixed assets are accounted for in their respective funds.

The General Fixed Assets Account Group is presented in the financial statements at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. Interest during construction has not been capitalized. Also, public domain or "infrastructure" fixed assets are not capitalized. Accumulated depreciation is not recorded in the General Fixed Assets Account Group. Purchased fixed assets are stated at historical cost.

The asset capitalization policy was changed effective November 14, 1995. Previously, property was capitalized if it had a normal useful life of four years and a unit acquisition cost of \$500 for tangible property, and \$5,000 for intangible property. Under the new policy, both tangible and intangible property are capitalized if the property has a normal useful life of at least one year and a unit acquisition cost of at least \$5,000. Existing assets that no longer met the new capitalization threshold were removed from the General Fixed Assets Account Group. The change in the asset capitalization policy resulted in a decrease in fixed assets of \$732 million, as demonstrated in Note 7.

Proprietary Fund Type fixed assets, consisting of property, plant, and equipment, are stated at cost at the date of acquisition, less accumulated depreciation (see Note 7). They are depreciated over their estimated useful lives, ranging from three to 100 years using the straight-line method of depreciation. Water projects, which represent 60.4% of the fixed assets of the enterprise funds, are depreciated over their service lives, ranging from 30 to 100 years. Toll bridges and California State University dormitory facilities, which represent 18.4% and 12.3% respectively of the fixed assets of the enterprise funds, are not depreciated.

I. Long-Term Obligations

The State reports long-term obligations of governmental funds in the General Long-Term Obligations Account Group. Long-term obligations consist of unmatured general obligation bonds, certain unmatured revenue bonds, long-term capital lease obligations and certificates of participation, commercial paper, the liability for

pension obligations, the liability for employees' compensated absences and workers' compensation claims, amounts owed for lawsuits, and the State's share of the University of California pension liability.

With approval in advance from the Legislature, certain authorities and state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of the authorities and agencies listed in Note 15. The General Fund has no legal liability for payment of principal and interest on revenue bonds. With the exception of the building authorities, which are included in capital projects funds, the liability for revenue bonds is recorded in the respective fund.

J. Compensated Absences

The amounts of vested unpaid vacation accumulated by state employees are accrued when incurred in proprietary funds, which use the accrual basis of accounting. In the governmental funds, only the amounts of compensated absences that normally would be liquidated with expendable available financial resources are accrued as current-year expenditures, such as costs associated with academic-year faculty of the California State University and the special schools of the California State Department of Education. The costs of the academic-year faculty represent services rendered over a ten month period but are paid over a 12-month period. The balance of the amounts owed for services rendered are reported as a current liability in the State's General Fund. Unless it is anticipated that compensated absences will be used in excess of a normal year's accumulation, no additional expenditures are accrued. As a result, the unpaid liability for governmental funds is recorded in the General Long-Term Obligations Account Group. Accumulated sick-leave balances are not included in the compensated absences because they do not vest to employees. However, unused sick-leave balances convert to service credits upon retirement.

K. Fund Equity

Fund equity accounts present the difference between assets and liabilities of a fund. The fund equity accounts consist of *contributed capital* and *retained earnings* for proprietary funds and certain component units, *investment in general fixed assets* for the General Fixed Assets Account Group and certain component units, and *fund balance* for governmental funds, trust funds, and certain component units.

Contributed capital is the permanent fund capital of a proprietary fund. Contributed capital is created when a residual equity transfer is received by a proprietary fund, when a general fixed asset is "transferred" to a proprietary fund, or when a grant is received that is externally restricted to capital acquisition or construction.

Retained earnings is divided into two sections: *reserved for regulatory requirements* and *unreserved*. The reserved for regulatory requirements represent a segregation of the retained earnings in enterprise funds and certain component units for amounts which

are unavailable for general use as a result of specific legal requirements. Unreserved retained earnings represent the accumulated earnings of proprietary funds and certain component units that are not reserved for any specific purpose.

The fund balances for governmental funds and trust funds are divided into two sections: *reserved* and *unreserved-undesignated*. Part or all of the total fund balance may be reserved as a result of law or generally accepted accounting principles. Reserves represent those portions of the fund balances that are legally segregated for specific uses. The reserves of the fund balance for governmental funds, trust funds, and component units are as follows:

Reserved for encumbrances represents goods and services that are ordered, but not received, by the end of the year.

Reserved for advances and loans receivable represents advances to other funds and the non-current portion of loans receivable that do not represent expendable available financial resources.

Reserved for employees' pension benefits represents pension trust fund reserves, which include accumulated contributions made by employees and employers, and undistributed interest and investment earnings.

Reserved for continuing appropriations represents the unencumbered balance of all appropriations for which the period of availability extends beyond the period covered by this report, the year ended June 30, 1996. These appropriations are legally segregated for a specific future use.

Reserved for other specific purposes includes trust and agency fund amounts of the Unemployment Fund and other expendable trust funds that are not available for future appropriations other than those for which the funds were established.

The *unreserved-undesignated* amounts represent the net of total fund balance, less reserves, for governmental funds and certain component units.

Investment in general fixed assets represents fixed assets of the University of California that are restricted for specific purposes, and the State's investment in capital assets reported in the General Fixed Assets Account Group (see Note 7).

**L. Restatement of
Beginning Fund
Equity**

The beginning retained earnings in the enterprise funds have been restated for \$30 million to correct prior year amortization and accruals for revenues and expenses.

M. Guaranty Deposits

The State is custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not

shown on the financial statements.

**N. Memorandum Only
Total Columns**

Total columns on the general purpose financial statements are captioned as “memorandum only” because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2.

BUDGETARY AND LEGAL COMPLIANCE

A. Budgetary Data

The State's annual budget is prepared primarily on a modified accrual basis. The Governor recommends a budget for approval by the Legislature each year. This recommended budget includes estimated revenues; however, revenues are not included in the budget adopted by the Legislature. Under state law, the State cannot adopt a spending plan that exceeds estimated revenues.

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations, and establish the legal level of control at the appropriation level for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders by the Governor.

Amendments to the initial budget for the year ended June 30 were legally made, and are included in the budget data in the financial statements. The amendments had the effect of increasing spending authority and expenditures for the year.

Appropriations are generally available for expenditure or encumbrance either in the year appropriated or for a period of three years if the legislation does not specify a period of availability. At the end of the availability period, the encumbering authority for the unencumbered balance lapses. Some appropriations continue indefinitely while others are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period when the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

Legislative appropriations are based on when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year goods and services are received. The budgets reported in the Statements of Revenues, Expenditures, and Changes in Fund Balances, Budgetary Basis-Budget and Actual, have been adjusted to reflect the

differences between the financial reporting methodology and legislative appropriations to correctly state the budget variance. These statements include all the expenditures of the governmental funds and their related appropriations that are authorized annually, continually, or by project. Governmental funds that are budgeted annually include the General Fund, special revenue funds, and capital projects funds.

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall control of appropriations. Actual expenditures did not exceed appropriations. However, for special revenue funds and capital projects funds, estimated prior year expenditure accruals can differ from the actual amount paid in the current year. As a result, expenditure variances from the budget can be favorable or unfavorable.

In contrast, the beginning fund balance of the General Fund on a budgetary basis was restated by \$114 million. This adjustment reflects the difference between the net expenditures and revenues that were accrued the previous June 30 and the amount of actual revenues and net expenditures that were subsequently realized. The beginning fund balance on the GAAP basis is not affected by these adjustments.

The State annually reports its financial condition based on GAAP (GAAP basis) and on the State's budgetary provisions (budgetary basis). The *Budgetary/Legal Basis Annual Report* is prepared in accordance with statutory and regulatory requirements and is used for reporting on the execution of the State's budget.

Financial activities are mainly controlled at the appropriation level but can vary depending on the presentation and wording contained in the Budget Act. Certain items which are established at the category, program, component, or element levels can be adjusted by the Department of Finance. While the financial activities are controlled at various levels, the legal level of budgetary control has been established in the Budget Act at the appropriation level for the annual operating budget.

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budgetary Basis-Budget and Actual and the related combining level and individual fund presentations are not presented in this document at the legal level of budgetary control, as such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the *Budgetary/Legal Basis Annual Report Supplement*, which includes a statement that demonstrates compliance with the legal level of budgetary control, in accordance with GASB's Codification of Governmental Accounting and Financial Reporting Standards Section 2400.112. This statement, the Statement of Appropriations, Expenditures, and Balances does not include all of the expenditures

and appropriations of the governmental funds. However, it does include the comparison of the annual appropriated budget for governmental funds with expenditures at the legal level of control. A copy of this report, as prepared for the fiscal year ended June 30, 1996, is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5876.

**B. Reconciliation of
Budgetary Basis with
GAAP Basis**

The accounting records of state agencies are maintained on the budgetary basis for the primary purpose of maintaining accountability of the State's budget and other fiscal legislation; these records are used as the basis for audit. After the budgetary basis financial report is prepared, adjustments are made to prepare the GAAP basis financial statements. The Statements of Revenues, Expenditures, and Changes in Fund Balances Budgetary Basis – Budget and Actual are compiled on the budgetary basis for the governmental funds. The differences between budgetary fund balances as shown on these statements, and the fund balances prepared in accordance with GAAP are explained and reconciled in the following paragraphs and Table 1.

Advances and Loans Receivable: Loans made to other funds or to other governments are normally recorded as expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The General Fund provided loans totaling \$935 million for education that will be forgiven and charged to expenditures in the future on a budgetary basis. On a GAAP basis, these loans are charged to expenditures this year since an agreement was made to forgive the loans. The adjustments related to advances and loans caused a decrease to the fund balance of \$847 million in the General Fund and an increase to the fund balance of \$1.3 billion in special revenue funds.

Escheat Property: Liability for the estimated amount of escheat property ultimately expected to be reclaimed and paid is required to be reported. This adjustment caused a \$240 million decrease to the General Fund balance.

Liabilities Exceeding Available Appropriations: The State does not, on a budgetary basis, accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to this account for these liabilities in accordance with GAAP caused a net decrease to the General Fund balance of \$481 million.

Authorized and Unissued Bonds: General obligation bonds that are not self-liquidating are recorded as additions to the fund balance for the special revenue and capital projects funds on the budgetary basis when voters authorize the sale of bonds. However, in accordance with GAAP, only the bonds issued during the year are recorded as bond proceeds. The adjustments related to authorized and unissued bonds caused a decrease to fund balance of \$3.8 billion in special revenue funds and \$3.5 billion in capital projects funds.

Encumbrances: The State does not record certain encumbrances for special revenue funds and capital projects funds on a budgetary basis that are recorded on a GAAP basis. The adjustments related to encumbrances caused an increase of \$400 million in special revenue funds and \$5 million in capital projects funds.

Other: Certain other adjustments and reclassifications are necessary to present the financial statements in accordance with GAAP. The other adjustments caused a decrease in fund balance of \$274 million in the General Fund, \$401 million in special revenue funds, and \$27 million in capital projects funds.

Table 1**Reconciliation of Budgetary Basis and GAAP Basis Fund Balances**

June 30, 1996 (Amounts in thousands)

Reconciliation Items	General Fund	Special Revenue Funds	Capital Projects Funds
Budgetary Basis.....	\$ 1,073,851	\$ 8,078,292	\$ 3,591,766
Advances and loans receivable.....	(847,197)	1,300,670	—
Escheat property.....	(240,323)	—	—
Liabilities exceeding available appropriations..	(480,902)	—	—
Authorized and unissued bonds.....	—	(3,773,380)	(3,519,088)
Encumbrances.....	—	400,134	5,105
Other.....	(274,209)	(400,529)	(27,173)
GAAP Basis (Deficit).....	\$ (768,780)	\$ 5,605,187	\$ 50,610

NOTE 3.**DEPOSITS AND INVESTMENTS**

The State Treasurer's Office administers a pooled investment program. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs. The enterprise, trust and agency funds, and a building authority in the capital projects fund type also make separate investments.

As of June 30, 1996, the average remaining life of the securities in the pooled money investment account administered by the State Treasurer's Office was approximately 291 days.

The State Treasurer's Office also has agreements with certain banks to maintain cash on deposit that does not earn interest income for the State. Income earned on these deposits compensates the banks for services and uncleared checks that are deposited in the State's accounts.

All **Demand and Time Deposits**, totaling approximately

\$638 million, which were held by financial institutions at year end, were insured by federal depository insurance or by collateral held by the State or by an agent of the State in the State's name. The California Government Code requires collateral pledged for demand and time deposits to be deposited with the State Treasurer.

As of June 30, 1996, the State had amounts on deposit with fiscal agents totaling approximately \$15 million. These deposits are related to state investment activities and to principal and interest payments due to bondholders. These deposits are insured by federal depository insurance or by collateral held by an agent of the State in the State's name.

State statutes, bond resolutions, and investment policy resolutions allow the State to have **Investments** in United States government securities, Canadian government securities, certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds, and other investments.

As of June 30, 1996, the State had investments in real estate, investment contracts, annuity contracts, mutual funds, and other investments, totaling \$14.6 billion. These investments are not subject to classification. All remaining investments reported as of June 30, 1996, are categorized in three categories of credit risk:

1. Insured or registered, or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or by an agent in the State's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or by an agent but not in the State's name.

The types of investments reported at year end are representative of the types of investments made during the year. Furthermore, the credit risk associated with the investments reported at year end is representative of the credit risk associated with investments made during the year.

The market values of the investments in certain certificates of deposit, commercial paper, bank notes, and repurchase agreements for the pooled investments approximate their carrying values because of the short-term nature of those securities.

The investments of pension trust funds are reported at fair value (see Note 22). Investments of the Deferred Compensation Plan Fund are reported at market value. All other investments are reported at cost or amortized cost. For these investments, no loss is recorded when market values decline below cost, as such declines are considered temporary. Table 2 presents the carrying value and

Table 2**Schedule of State Investments**

June 30, 1996 (Amounts in thousands)

	Category			Carrying Value	Market Value
	1	2	3		
Pooled Investments					
Government Securities:					
U.S. and U.S. agency.....	\$ 10,130,091	\$ —	\$ —	\$ 10,130,091	\$ 10,151,398
Certificates of deposit.....	5,209,165	—	—	5,209,165	5,250,629
Bankers' acceptances.....	577,408	—	—	577,408	578,021
Commercial paper.....	5,991,749	—	—	5,991,749	5,999,363
Corporate bonds.....	2,019,109	—	—	2,019,109	2,011,353
Bank notes.....	1,240,097	—	—	1,240,097	1,247,322
Total Pooled Investments.....	25,167,619	—	—	25,167,619	25,238,086
Separately Invested Funds Subject to Categorization					
Government Securities:					
U.S. and U.S. agency.....	29,509,490	79,337	—	29,588,827	29,734,929
Canadian government.....	1,669,142	—	—	1,669,142	1,669,142
Certificates of deposit.....	3,210	—	—	3,210	3,210
Commercial paper.....	2,205,609	—	—	2,205,609	2,205,609
Corporate bonds.....	15,901,421	—	—	15,901,421	15,901,926
Mortgage loans and notes.....	11,350,931	—	—	11,350,931	11,350,931
Other debt securities.....	768,733	—	—	768,733	768,733
Repurchase agreements.....	4,084	—	—	4,084	4,084
Equity securities.....	71,510,363	—	—	71,510,363	71,510,363
Other investments.....	21,644,275	—	—	21,644,275	21,644,257
Total Separately Invested Funds Subject To Categorization.....	154,567,258	79,337	—	154,646,595	154,793,184
Separately Invested Funds Not Subject to Categorization					
Real Estate.....				7,554,295	7,554,295
Investment contracts.....				1,865,795	1,865,795
Annuity contracts.....				25,230	25,230
Mutual funds.....				2,596,326	2,596,945
Other investments.....				2,530,113	2,530,113
Total Separately Invested Funds Not Subject to Categorization.....				14,571,759	14,572,378
Total Investments.....	\$ 179,734,877	\$ 79,337	\$ —	\$ 194,385,973	\$ 194,603,648

market value of the investments that were reported by the State on June 30, 1996.

At June 30, 1996, floating rate notes and mortgage-backed assets comprised less than 5% of the pooled investments. For the floating rate notes in the portfolio, the interest received by the State will rise or fall as the underlying index rate rises or falls. The structure of the floating rate notes in the State's portfolio is such that it hedges the portfolio against the risk of increasing interest rates. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs), which is a security backed by a pool of mortgages. The REMICs found in the State's portfolio have a fixed principal payment schedule.

The California Government Code allows the State to enter into **Reverse Repurchase Agreements**, as part of its pooled investment program. A reverse repurchase agreement is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the State or provide securities or cash of equal value, the State will suffer an economic loss equal to the difference between the market value plus the accrued interest of the underlying securities and the agreement obligation, including accrued interest. During year ended June 30, 1996, the State entered into 31 reverse repurchase agreements by temporarily selling investments with a carrying value of approximately \$3.6 billion. The maturities of investments made with the proceeds from reverse repurchase agreements were matched to the maturities of the agreements. At June 30, 1996, the State did not have any reverse repurchase agreements outstanding.

NOTE 4.**DUE FROM OTHER FUNDS, DUE TO OTHER FUNDS,
ADVANCES AND LOANS RECEIVABLE, ADVANCES FROM
OTHER FUNDS, DUE FROM PRIMARY GOVERNMENT,
AND DUE TO COMPONENT UNITS**

The balances of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due from Primary Government, and Due to Component Units are shown in Table 3.

The total Advances and Loans Receivable is \$8.7 billion more than the total Advances from Other Funds, because loans to other governmental entities and individuals are included in the loans receivable amounts. The total Due to Component Units is \$167 million more than the total Due from Primary Government because of accounting practices of the State Compensation Insurance Fund, which is audited by other auditors. The State Compensation Insurance Fund has not recorded \$167 million as Due from Primary Government for reimbursement of the amount of claims received as of June 30 and expected to be paid in the following year.

Table 3**Schedule of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due from Primary Government, and Due to Component Units**

June 30, 1996 (Amounts in thousands)

	Due from Other Funds	Due to Other Funds	Advances and Loans Receivable	Advances from Other Funds	Due from Primary Government	Due to Component Units
General Fund.....	\$ 4,824,173	\$ 4,205,258	\$ 762,497	\$ 343,378	\$ —	\$ 182,122
Special Revenue:						
Federal.....	150,881	3,305,539	22,909	—	—	3,493
Transportation Construction.....	1,052,259	67,198	109,215	—	—	17,904
Transportation Safety.....	173,647	108,648	—	—	—	25,463
Business and Professions						
Regulatory and Licensing.....	135,793	50,019	7,012	5,557	—	2,538
Environmental and						
Natural Resources.....	252,346	90,296	1,051,001	25,711	—	2,911
Financing to Local Governments.....	13,169	5,455	1,490	—	—	—
Cigarette and Tobacco Tax.....	87,113	122,163	—	—	—	27,966
Local Revenue.....	302,270	27,934	—	—	—	—
Unemployment Programs.....	405,143	36,267	—	—	—	5,371
Financing to the Public.....	44,738	1,129	15,719	—	—	—
Other Special Revenue.....	198,013	346,773	93,324	11,396	—	309
Total Special Revenue.....	2,815,372	4,161,421	1,300,670	42,664	—	85,955
Capital Projects:						
Special Account for Capital Outlay.....	8,049	7,070	—	—	—	—
Prison Construction.....	145	2,922	—	—	—	—
Higher Education Construction.....	574	1,213	—	—	—	—
Natural Resources Acquisition and						
Enhancement.....	25,780	1,298	—	—	—	—
Building Authorities.....	37,987	22,852	—	—	—	—
Other Capital Projects.....	7	198	—	1,138	—	—
Total Capital Projects.....	72,542	35,553	—	1,138	—	—
Enterprise:						
Housing Loan.....	4,499	3,094	2,354,849	134,260	—	—
Water Resources.....	72,215	35,891	79,843	50,312	—	—
School Building Aid.....	—	61,201	191,106	—	—	1,556
Toll Facilities.....	12,506	14,865	6,234	6,160	—	—
California State University.....	11,105	9,855	2,663	2,663	—	—
Leasing of Public Assets.....	119,198	16,335	—	—	—	1,023
State Lottery.....	8,015	189,700	—	—	—	—
Harbors and Watercraft.....	2,455	3,449	195,974	—	—	—
Health Facilities Construction						
Loan Insurance.....	3,909	124	—	—	—	—
Other Enterprise.....	7,745	1,384	27,911	6,382	—	—
Total Enterprise.....	241,647	335,898	2,858,580	199,777	—	2,579
Internal Service:						
Architecture Revolving.....	50,835	16,391	—	—	—	881
Service Revolving.....	78,389	86,856	—	—	—	9,147
Prison Industries.....	28,889	3,049	—	1,278	—	7,219
Stephen P. Teale Data Center.....	18,854	392	—	—	—	701
Health and Welfare Agency						
Data Center.....	46,809	16	—	—	—	—
Water Resources.....	49,990	596	—	91,877	—	936
Other Internal Service.....	2,323	10,610	—	1,731	—	—
Total Internal Service.....	276,089	117,910	—	94,886	—	18,884

(Continued)

Table 3 (continued)**Schedule of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due From Primary Government, and Due to Component Units**

June 30, 1996 (Amounts in thousands)

	Due from Other Funds	Due to Other Funds	Advances and Loans Receivable	Advances from Other Funds	Due from Primary Government	Due to Component Units
Expendable Trust:						
Unemployment.....	16,949	76,836	—	—	—	—
School Employees.....	2,353	6,778	—	—	—	—
Unemployment Compensation Disability.....	68,616	10,320	—	—	—	—
California State University and Colleges Trust.....	43,753	7,782	—	125	—	—
State Guaranteed Loan Reserve.....	7,501	674	—	—	—	—
Housing Loan.....	2,159	777	491,864	—	—	—
Unclaimed Property Fund.....	29,000	—	240,323	—	—	—
Public Employees Health Care.....	5,615	1,976	—	—	—	—
Other Expendable Trust.....	41,952	10,887	14,000	—	—	—
Total Expendable Trust.....	217,898	116,030	746,187	125	—	—
Pension Trust:						
Public Employees' Retirement.....	1,070,447	—	—	—	—	—
Teachers' Retirement.....	61,291	—	—	—	—	—
Judges' Retirement.....	708	296	—	—	—	—
Legislators' Retirement.....	—	196	—	—	—	—
Volunteer Firefighters' Length of Service.....	—	—	—	—	—	—
Total Pension Trust.....	1,132,446	492	—	—	—	—
Agency:						
Local Agency Investment.....	159,225	55,716	—	—	—	—
Revenue Collecting and Disbursing.....	5,235,525	5,452,679	636,179	644,179	—	—
Deposit.....	19,784	451,080	20,944	456	—	—
Deferred Compensation Plan.....	19,125	332	—	—	—	—
Departmental Trust.....	582	696	—	—	—	—
Other Agency.....	198,254	279,593	2,116	—	—	2,519
Total Agency.....	5,632,495	6,240,096	659,239	644,635	—	2,519
University of California:						
Current Funds.....	1,107	123,502	—	—	111,249	—
Loan Funds.....	—	2,000	—	—	—	—
Endowment and Similar Funds.....	12,896	—	—	—	—	—
Plant Funds.....	745	12,748	—	—	—	—
Retirement System Funds.....	123,502	—	—	—	—	—
Total University of California.....	138,250	138,250	—	—	111,249	—
Special Purpose Authorities:						
State Compensation Insurance.....	—	—	—	—	9,965	—
Housing Finance Agency.....	—	—	3,731,656	—	—	—
Alternative Energy and Advanced Transportation.....	—	—	—	—	—	—
Pollution Control.....	20	—	—	—	2,633	—
Health Facilities.....	2	—	4,478	—	598	—
Educational Facilities.....	—	—	—	—	304	—
School Finance Authority.....	—	—	—	—	—	—
Economic Development.....	—	—	—	—	11	—
District Agricultural Associations.....	717	730	—	—	—	—
San Joaquin River Conservancy.....	—	13	—	—	—	—
Total Special Purpose Authorities..	739	743	3,736,134	—	13,511	—
Total.....	\$ 15,351,651	\$ 15,351,651	\$ 10,063,307	\$ 1,326,603	\$ 124,760	\$ 292,059

(Concluded)

NOTE 5.**RESTRICTED ASSETS**

Table 4 presents a summary of the legal restrictions on assets of the enterprise funds and the purposes for which the assets were restricted as of June 30, 1996.

Table 4**Schedule of Enterprise Fund Restricted Assets**

June 30, 1996 (Amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Funds	Other Assets
Debt service.....	\$ 379,248	\$ 271,974	\$ 581	\$ 166
Construction.....	623,431	—	7,500	752
Deposits.....	6,438	—	—	—
Equipment repair and replacement.....	66,233	—	2,393	55
Operations.....	7,221	—	—	—
Other.....	12,300	—	—	—
Total.....	\$ 1,094,871	\$ 271,974	\$ 10,474	\$ 973

On June 30, 1996, \$132,000 in cash and pooled investments of the internal service funds were restricted for property and equipment acquisitions.

NOTE 6.**NET INVESTMENT IN DIRECT FINANCING LEASES**

The State Public Works Board has entered into lease-purchase agreements with various state agencies, the University of California, and community colleges (see Note 12). The payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the construction of facilities for correctional and higher educational institutions and energy efficiency projects for various state agencies. Upon expiration of these leases, jurisdiction of the facilities and projects will be with the respective institution, agency, or community college.

The minimum lease payments to be received are summarized in Table 5.

Table 5**Schedule of State Public Works Board Lease Purchase Agreements**

(Amounts in thousands)

Year Ending June 30	State Agencies	University of California	Community Colleges	Total
1997.....	\$ 315,657	\$ 95,356	\$ 35,033	\$ 446,046
1998.....	323,389	97,106	37,297	457,792
1999.....	314,744	97,149	37,247	449,140
2000.....	313,407	97,416	37,245	448,068
2001.....	300,772	94,231	37,066	432,069
Thereafter.....	3,944,486	1,395,252	521,348	5,861,086
Total Minimum Lease Payments.....	5,512,455	1,876,510	705,236	8,094,201
Less unearned income.....	2,661,152	921,908	357,693	3,940,753
Net Investment in Direct Financing Leases.....	\$ 2,851,303	\$ 954,602	\$ 347,543	\$ 4,153,448

The State Public Works Board has entered into various capital lease agreements with the University of California. The State Public Works Board issues revenue bonds to finance the construction of these leased facilities. The State Public Works Board, which is audited by other auditors, records the net investment in direct financing leases at the net present value of the minimum lease payments. At June 30, 1996, these bonds and the related net investment in direct financing leases, totaling approximately \$1.1 billion and \$954 million, respectively, are presented in the enterprise fund type.

NOTE 7.**FIXED ASSETS**

Table 6 is a summary of changes in the General Fixed Assets Account Group for the year ended June 30, 1996.

Table 6**Schedule of Changes in General Fixed Assets**

(Amounts in thousands)

	Balance July 1, 1995	Capitalization Policy Adjustment (Deductions)	Additions	Other (Deductions)	Balance June 30, 1996
Land.....	\$ 1,834,121	\$ 647	\$ 132,978	\$ 9,198	\$ 1,957,254
Structures and improvements..	8,703,204	12,160	1,706,101	333,546	10,063,599
Equipment.....	2,982,180	719,227	340,096	370,318	2,232,731
Construction in progress.....	859,205	—	86,642	171,473	774,374
Total.....	\$ 14,378,710	\$ 732,034	\$ 2,265,817	\$ 884,535	\$ 15,027,958

Table 7 summarizes the fixed assets of the enterprise funds and internal service funds as of June 30, 1996.

Table 7

Schedule of Proprietary Fund Type Fixed Assets

June 30, 1996 (Amounts in thousands)

Fixed Assets	Enterprise	Internal Service
State water projects.....	\$ 3,457,579	\$ —
Toll facilities.....	989,399	—
Other land, improvements, buildings and equipment.....	973,503	573,214
Construction in progress.....	1,246,411	967
Total Fixed Assets.....	6,666,892	574,181
Less accumulated depreciation.....	1,206,472	325,827
Net Fixed Assets.....	\$ 5,460,420	\$ 248,354

NOTE 8.

LONG-TERM OBLIGATIONS

As of June 30, 1996, the State had long-term obligations totaling \$20.5 billion. These obligations are not expected to be financed from current resources in the governmental funds. Long-term obligations consist of the liability for employees' compensated absences, certificates of participation and commercial paper, long-term capital lease obligations, unmatured general obligation bonds, unmatured revenue bonds, and other liabilities. These other liabilities consist of the liability for pension obligations of \$588 million, the liability for workers' compensation claims of \$566 million, amounts owed for lawsuits of \$336 million, and the State's share of the University of California pension liability of \$108 million. These other liabilities do not have any required payment schedules, or will be paid when funds are appropriated. Of the total long-term obligations outstanding, 95% will be paid by the General Fund and 5% by special revenue funds. The changes in the General Long-Term Obligations Account Group during the year ended June 30, 1996 are summarized in Table 8.

Table 8**Schedule of Changes in General Long-Term Obligations**

(Amounts in thousands)

	Balance July 1, 1995	Additions	Deductions	Balance June 30, 1996
Compensated absences payable.....	\$ 1,149,321	\$ 577,040	\$ 570,288	\$ 1,156,073
Certificates of participation and commercial paper....	151,890	130,500	21,995	260,395
Capital lease obligations.....	2,248,201	839,717	94,326	2,993,592
General obligation bonds payable.....	14,843,814	621,893	1,241,535	14,224,172
Revenue bonds payable.....	242,670	80,835	84,110	239,395
Other liabilities.....	1,537,209	934,178	873,821	1,597,566
Totals.....	\$ 20,173,105	\$ 3,184,163	\$ 2,886,075	\$ 20,471,193

NOTE 9.**COMPENSATED ABSENCES**

As of June 30, 1996, the State's estimated liability for compensated absences related to accumulated vacation leave totaled approximately \$1.3 billion. Of this amount, \$1.2 billion is reported in the General Long-Term Obligations Account Group, \$69 million is reported in the proprietary fund types, and \$95 million is reported in the State's General Fund.

NOTE 10.**CERTIFICATES OF PARTICIPATION**

Debt service requirements for certificates of participation, which are financed by lease payments from the General Fund, are shown in Table 9.

Table 9**Schedule of Debt Service Requirements for Certificates of Participation**

(Amounts in thousands)

Year Ending June 30	Principal	Interest	Total
1997.....	\$ 8,350	\$ 6,039	\$ 14,389
1998.....	8,830	5,551	14,381
1999.....	7,183	7,187	14,370
2000.....	7,035	7,632	14,667
2001.....	7,174	7,175	14,349
Thereafter.....	91,323	83,119	174,442
Total.....	\$ 129,895	\$ 116,703	\$ 246,598

NOTE 11.

COMMERCIAL PAPER

The State has two commercial paper borrowing programs: a general obligation commercial paper program of up to \$1 billion and a Department of Water Resources commercial paper program of up to \$150 million. Under these programs, the State may issue commercial paper at prevailing interest rates for periods of not more than 270 days from the date of issuance. To provide liquidity for the programs, the State entered into a revolving credit agreement with commercial banks equal to the authorized amount of commercial paper. At June 30, 1996, there were borrowings of approximately \$131 million of general obligation commercial paper and \$21 million of Department of Water Resources commercial paper outstanding. The proceeds from the issuance of commercial paper are restricted primarily to the construction costs of general obligation bond program projects and of certain State water projects. Because the general obligation commercial paper is retired by long-term general obligation debt, it is recorded in the General Long-Term Obligations Account Group. The Department of Water Resources commercial paper is accounted for in the enterprise fund type.

NOTE 12.

LEASES

The aggregate amount of lease commitments for facilities and equipment in effect as of June 30, 1996, is approximately \$6.5 billion. This amount does not include any future escalation charges for real estate taxes and operating expenses. Most state leases are classified as operating leases, in accordance with the applicable standards. Most state operating leases contain clauses providing for termination. It is expected that in the normal course of business most of these leases will be replaced by similar leases.

The method of calculating the minimum lease commitments was changed to more accurately reflect the minimum commitment amount. Previously, the schedule of minimum lease commitments for operating leases was calculated using the end of the lease date, rather than the date when the State has the right to cancel the lease with one month's notice. As a result, the total minimum lease commitment amount for operating leases was reduced by \$831 million. Under the previous method of calculation, the amount would have been \$1.5 billion. This amount represents the total potential operating lease payments, including the amount for time periods after the date when the State has the right to cancel the lease. The minimum lease commitments are summarized in Table 10.

Table 10**Schedule of Minimum Lease Commitments**

(Amounts in thousands)

Year Ending June 30	Operating Leases	Capital Leases	Total
1997.....	\$ 195,804	\$ 355,660	\$ 551,464
1998.....	154,685	345,425	500,110
1999.....	105,899	336,414	442,313
2000.....	56,267	334,307	390,574
2001.....	36,842	319,627	356,469
Thereafter.....	89,804	4,200,238	4,290,042
Total Minimum Lease Payments.....	\$ 639,301	5,891,671	\$ 6,530,972
Less amount representing interest.....		2,865,432	
Present Value of Net Minimum Lease Payments.....	\$	3,026,239	

The total present value of minimum lease payments is composed of approximately \$3.0 billion reported in the General Long-Term Obligations Account Group, \$313,000 in enterprise funds, and \$32 million in internal service funds. Lease expenditures for the year ended June 30, 1996, amounted to approximately \$604 million.

Included in the capital lease commitments are lease-purchase agreements that certain state agencies have entered into with the State Public Works Board, an enterprise fund type, amounting to a present value of net minimum lease payments of \$2.9 billion. This amount represents 94% of the total present value of minimum lease payments (see Note 6).

Also included in the capital lease commitments are some lease-purchase agreements to acquire electronic data processing and other equipment.

The capital lease commitments presented in Tables 8 and 10 do not include lease-purchase agreements with building authorities that are blended component units. These building authorities acquire or develop office buildings and then lease the facilities to the State. Upon expiration of the leases, title will pass to the State. The State reports the costs of the buildings in the General Fixed Assets Account Group and the revenue bonds and certificates of participation outstanding associated with the buildings in the General Long-Term Obligations Account Group. Accordingly, the State does not include lease receivables or capital lease obligations associated with these buildings in its financial statements pursuant to GASB Statement No. 14.

Table 11 presents a summary of minimum lease commitments for office buildings financed by building authorities.

Table 11**Schedule of Minimum Lease Commitments for Building Authorities**

June 30, 1996 (Amounts in thousands)

Leases with Building Authorities	Present Value of Minimum Lease Payments	Interest	Total Minimum Lease Payments
Los Angeles State Building Authority.....	\$ 166,517	\$ 87,399	\$ 253,916
East Bay State Building Authority.....	99,440	77,732	177,172
California State University			
Headquarters Building Authority.....	2,058	403	2,461
San Francisco State Building Authority.....	52,006	31,489	83,495
Total.....	\$ 320,021	\$ 197,023	\$ 517,044

NOTE 13.**COMMITMENTS**

The State has made commitments of \$3.1 billion for certain highway construction projects. These commitments are not included as a liability or in the reserve for encumbrances in the special revenue funds because the future expenditures related to these commitments are expected to be reimbursed from local governments and proceeds of approved federal grants. The ultimate liability will not accrue to the State.

As of June 30, 1996, the State had other commitments totaling \$2.9 billion, which are not included as a liability on the balance sheet. These commitments included loan and grant programs for housing, school building aid, and rail system and county jail construction, totaling approximately \$1.9 billion. The total commitments also include approximately \$55 million for the rehabilitation of toll bridge facilities, approximately \$915 million for the construction of water projects and the purchase of power, and up to \$78 million for the operation and maintenance of the lottery's automated gaming system. The commitments are expected to be funded from existing program resources and from the proceeds of revenue and general obligation bonds to be issued.

NOTE 14.**GENERAL OBLIGATION BONDS**

The State Constitution permits the State to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds majority of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used, first, to support the public school system and public institutions of higher education. The General Fund can then be

used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service provided on their behalf.

General obligation bonds that are directly related to and expected to be paid from the resources of enterprise funds are included within the accounts of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

On June 30, 1996, \$7.8 billion of general obligation bonds had been authorized but not issued. This amount includes \$3.3 billion that has been authorized by the applicable finance committee for future issuance in the form of commercial paper notes. The \$7.8 billion excludes \$131 million in bonds that has been issued in the form of commercial paper notes, but has not yet been retired by long-term bonds (see Note 11 for more information on commercial paper programs).

Table 12 summarizes the changes in general obligation bond debt for the year ended June 30, 1996.

Table 12

Schedule of Changes in General Obligation Bond Debt

(Amounts in thousands)

	General Long-Term Obligations	Enterprise Funds	Total
Balance July 1, 1995.....	\$ 14,843,814	\$ 4,233,490	\$ 19,077,304
Additions.....	621,893	—	621,893
Deductions.....	(1,241,535)	(251,205)	(1,492,740)
Balance June 30, 1996.....	\$ 14,224,172	\$ 3,982,285	\$ 18,206,457

Table 13 shows the debt service requirements for all general obligation bonds, including interest of \$10.9 billion, as of June 30, 1996.

Table 13**Schedule of General Obligation Bonds Debt Service Requirements**

(Amounts in thousands)

Year Ending June 30	General Long-Term Obligations	Enterprise Funds
1997.....	\$ 1,900,135	\$ 477,254
1998.....	1,760,072	449,133
1999.....	1,680,939	433,441
2000.....	1,612,316	437,668
2001.....	1,554,711	432,453
Thereafter.....	13,835,340	4,505,581
Total.....	\$ 22,343,513	\$ 6,735,530

Defeasances for Year Ended June 30, 1996: On October 26, 1995, the State issued approximately \$81 million in various purpose general obligation refunding bonds (the "1995 Bonds") for an advance refunding of approximately \$81 million in outstanding general obligation bonds maturing in fiscal year 1995-96 (the "1995 Refunded Bonds"). The State invested the net proceeds of approximately \$81 million in U.S. government securities and placed the securities in an irrevocable trust to pay debt service on the 1995 Refunded Bonds. The monies that the General Fund would otherwise have paid toward debt service on the 1995 Refunded Bonds were used to exercise the State's right to redeem approximately \$83 million in outstanding general obligation bonds issued prior to 1988 (the "Redeemed Bonds") on their interest payment dates of December 1, 1995, January 1, 1996, February 1, 1996, April 1, 1996, and May 1, 1996. As a result, the 1995 Refunded Bonds and the Redeemed Bonds are no longer outstanding.

This advance refunding was undertaken to reduce total debt service payments through January 1, 2001, by approximately \$7 million and to obtain an economic gain (the difference between the present values of the debt service payments on the 1995 Bonds and the Redeemed Bonds) of approximately \$4 million.

On March 19, 1996, the State issued approximately \$160 million in various purpose general obligation refunding bonds (the "1996 Bonds") to advance refund approximately \$139 million of outstanding various purpose general obligation bonds (the "1996 Refunded Bonds"). The net proceeds of approximately \$159 million together with \$6 million received by the State through execution of a forward supply contract were used to purchase U.S. government securities. Those securities are held by the State Treasurer's Office in an irrevocable trust to provide for all future debt service payments and redemption premium on the 1996 Refunded Bonds. As a result, the 1996 Refunded Bonds are considered to be defeased and the liability for those bonds has been removed from the General

Long-Term Obligations Account Group.

The State advance refunded the 1996 Refunded Bonds to reduce its total debt service payments through November 1, 2024, by approximately \$17 million and to obtain an economic gain (the difference between the present values of the debt service payments on the 1996 Bonds and the 1996 Refunded Bonds) of approximately \$10 million.

Prior Year Defeasance: In prior years, the State has defeased certain bonds by placing the proceeds of new bonds in irrevocable escrow in a special trust account with the State Treasury to provide for all future debt service payments on the old bonds. Accordingly, the assets of the trust accounts and the liability for the defeased bonds are not included in the State's financial statements. At June 30, 1996, approximately \$130 million of general obligation bonds outstanding are considered defeased.

NOTE 15.**REVENUE BONDS**

Under state law, the California State University and Colleges Headquarters Building Authority (CSUHQ), the Los Angeles State Building Authority (LASBA), and the San Francisco State Building Authority (SFSBA) may issue revenue bonds. These revenue bonds are included in the General Long-Term Obligations Account Group. The CSUHQ issues bonds for the purpose of acquiring and constructing buildings for public education purposes, including a headquarters building for the trustees. The LASBA and SFSBA issue bonds for the purpose of constructing state office buildings.

A lease with the Trustees of the California State University pays the principal and interest on the revenue bonds issued by the CSUHQ. Leases with the State pay the principal and interest on the revenue bonds issued by LASBA and SFSBA (see Note 1). The primary government has no legal liability for the payment of principal and interest on the revenue bonds of the CSUHQ, the LASBA, and the SFSBA.

Revenue bonds that are directly related to and expected to be paid from the resources of enterprise funds are included within the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of the authorities and agencies listed in the next section of this note. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

The Department of Water Resources, the California State University, the California Transportation Commission, and the State Public Works Board issue revenue bonds to acquire, construct, or renovate state facilities or to refund outstanding revenue bonds in advance. The Department of Veterans Affairs issues revenue bonds allowing the State to make loans to finance the acquisition of farms and

homes by California veterans. When the farm and home loans financed by the revenue bonds are fully paid, the farms and homes become the property of private individuals.

Table 14 shows revenue bonds outstanding as of June 30, 1996.

Table 14

Schedule of Revenue Bonds Outstanding

June 30, 1996 (Amounts in thousands)

General Long-Term Obligations:	
Los Angeles State Building Authority.....	\$ 179,355
San Francisco State Building Authority.....	58,635
California State University and Colleges Headquarters Building Authority.....	1,405
Total General Long-Term Obligations.....	239,395
Enterprise Funds:	
State Public Works Board.....	5,431,442
Department of Water Resources.....	2,225,329
Department of Veterans Affairs.....	374,975
California State University.....	330,308
California Transportation Commission.....	56,850
Total Enterprise Funds.....	8,418,904
Total Revenue Bonds.....	\$ 8,658,299

Table 15 shows the debt service requirements for revenue bonds as of June 30, 1996. The debt service requirements primarily represent bond principal payments. The Table also includes certain unamortized refunding costs, premiums, discounts, and other costs.

Table 15

Schedule of Revenue Bond Debt Service Requirements

(Amounts in thousands)

Year Ending June 30	General Long-Term Obligations	Enterprise Funds
1997.....	\$ 22,531	\$ 257,513
1998.....	22,846	296,929
1999.....	22,868	327,866
2000.....	22,891	337,560
2001.....	22,903	345,741
Thereafter.....	242,447	7,118,748
Total.....	\$ 356,486	\$ 8,684,357

Defeasances for Year Ended June 30, 1996: On September 1, 1995, the State Public Works Board issued approximately \$16 million in revenue bonds to advance refund approximately \$18 million of outstanding 1986 Series A bonds. The net proceeds of approximately \$16 million (after payment of approximately

\$400,000 in underwriting fees, insurance, and other issuance costs) plus an additional \$4 million from funds and accounts established under prior indentures (CSU, 1986 Series A) were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the 1986 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements, as well as the related investments. The State Public Works Board advance refunded the 1986 Series A bonds to reduce its total debt service payments over the next 10 years by approximately \$5 million and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately \$4 million.

On October 2, 1995, the State Public Works Board issued approximately \$28 million in revenue bonds to advance refund approximately \$37 million of outstanding 1986 Series A bonds. The net proceeds of approximately \$28 million (after payment of approximately \$700,000 in underwriting fees, insurance, and other issuance costs) together with other available monies of approximately \$11 million were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the 1986 Series A bonds are considered to be defeased and the liability for those bonds has been removed from financial statements, as well as the related investments. The State Public Works Board advance refunded the 1986 Series A bonds to reduce its total debt service payments over the next five years by approximately \$14 million and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately \$2 million.

On April 23, 1996, the California State University Board of Trustees (University) issued approximately \$23 million in San Jose Student Union Revenue Bonds to advance refund approximately \$23 million of outstanding San Jose Student Union Series B and C bonds. The net proceeds of approximately \$23 million (after payment of \$77,000 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the Series B and C bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements, as well as the related investments. The University advance refunded the Series B and C bonds to reduce its total debt service payments over the next 24 years by approximately \$6 million and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately \$2 million.

On April 23, 1996, the University also issued approximately \$138 million in Housing System Revenue Bonds to advance refund approximately \$135 million of outstanding Housing System Series

AD, AI, AJ, AK, AL, AM, AN, AP, AQ, and AR bonds. The net proceeds of approximately \$138 million (after payment of approximately \$500,000 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements, as well as the related investments. The University advance refunded the Series AD, AI, AJ, AK, AL, AM, AN, AP, AQ, and AR bonds to reduce its total debt service payments over the next 26 years by approximately \$18 million and to obtain an economic gain (the difference between the present values of the debt service payments (on the old and new debt) of approximately \$8 million.

In December 1995, the Los Angeles State Building Authority issued approximately \$81 million in Revenue Bonds to advance refund approximately \$82 million of outstanding 1988 Series A bonds. The net proceeds of approximately \$80 million (after payment of approximately \$1 million in underwriting fees, insurance, and other issuance costs) and a premium of approximately \$246,000 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the 1988 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements, as well as the related investments. The authority advance refunded the 1988 Series A bonds to reduce its total debt service payments over the next 10 years by approximately \$10 million and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately \$3 million.

Prior Year Defeasances: In prior years, the Department of Water Resources, the State Public Works Board, the California Transportation Commission, the California State University, and the Los Angeles State Building Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the assets and liabilities for the defeased bonds are not included in the financial statements. On June 30, 1996, \$1.7 billion of revenue bonds outstanding are considered defeased.

NOTE 16.

MAJOR TAX REVENUES

Tax revenues for the year ended June 30, 1996, are presented in Table 16.

Table 16**Schedule of Major Tax Revenues**

June 30, 1996 (Amounts in thousands)

	General Fund	Special Revenue Funds	Expendable Trust Funds
Personal income.....	\$ 20,845,440	\$ —	\$ —
Sales and use.....	15,792,629	3,463,261	—
Bank and corporation.....	5,741,239	—	—
Unemployment insurance.....	—	—	3,484,610
Disability insurance.....	—	—	1,908,781
Insurance.....	1,138,842	—	—
Inheritance, estate, and gift.....	670,475	—	—
Cigarette and tobacco.....	171,221	455,575	—
Other.....	299,116	228,366	55,262
Total.....	\$ 44,658,962	\$ 4,147,202	\$ 5,448,653

NOTE 17.**FUND EQUITY****A. Expendable Trust Funds**

The fund balance Reserved for Other Specific Purposes of \$5.6 billion represents assets of the Unemployment Fund and other expendable trust funds that are not available for future appropriations other than those for which the funds were established.

B. Fund Deficits

The following funds had deficits at June 30, 1996, as shown in Table 17.

Table 17**Schedule of Fund Deficits**

June 30, 1996 (Amounts in thousands)

	Capital Projects Funds	Internal Service Funds
Higher Education Construction.....	\$ 11,866	\$ —
Building Authorities.....	3,378	—
Architecture Revolving.....	—	8,571
Water Resources Revolving.....	—	17,665
Total.....	\$ 15,244	\$ 26,236

C. Changes to Contributed Capital

The changes in the State's contributed capital accounts for its proprietary funds are shown in Table 18.

Table 18**Schedule of Changes in Contributed Capital**

(Amounts in thousands)

Sources	Enterprise	Internal Service	Total
Balance, July 1, 1995.....	\$ 214,792	\$ 110,271	\$ 325,063
Government contributions.....	1,455	1,968	3,423
Balance, June 30, 1996.....	\$ 216,247	\$ 112,239	\$ 328,486

NOTE 18.**RISK MANAGEMENT**

The State has elected, with a few exceptions, to be self-insured against loss or liability. Primarily, the exceptions are when a bond resolution or a contract requires the State to purchase commercial insurance for coverage against property loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, there has been no insurance settlement in the last three years that has exceeded insurance coverage. The State generally does not maintain reserves. Losses are covered by appropriations from each fund responsible for payment in the year in which the payment occurs. All claim payments are on a pay-as-you-go basis. The potential amount of loss arising from risks other than workers' compensation benefits are not considered material in relation to the State's financial position.

Workers' compensation benefits for self-insured agencies are initially paid by the State Compensation Insurance Fund. The State Compensation Insurance Fund estimated the liability for future workers' compensation claims against the State's self-insured agencies to be approximately \$733 million as of June 30, 1996. The liability represents the estimated total cost of all open and known disability claims as of June 30, 1996. The estimates are based on established claims criteria such as age of the injured, occupation, and type of injury. It is included in the accompanying financial statements. Of the total, \$89 million is included in the General Fund, \$58 million in the special revenue fund type, \$20 million in the proprietary fund types and \$566 million in the General Long-Term Obligations Account Group. Changes in the claims liabilities during year ended June 30, 1996 are shown in Table 19.

Table 19**Schedule of Changes in the Liability for Workers' Compensation Claims**

Year Ended June 30, 1996 (Amounts in thousands)

	1996	1995
Unpaid claims, beginning.....	\$ 753,000	\$ 773,000
Incurring claims.....	170,000	161,000
Claim payments.....	(190,000)	(181,000)
Unpaid claims, ending.....	\$ 733,000	\$ 753,000

NOTE 19.**SEGMENT INFORMATION**

Selected financial information by enterprise fund activity for major segments is shown in Table 20. The primary sources of enterprise fund revenues are as follows:

Housing Loan: Interest charged on contracts of sale of properties to California veterans and to California National Guard members; loan origination fees; and interest on investments.

Water Resources: Charges to local water districts, sale of excess power to public utilities, and interest earned on investments.

School Building Aid: Interest charged on loans to school districts for acquisition, construction, or rehabilitation of classroom facilities; and income from the rental of portable classrooms to school districts.

Toll Facilities: Toll fees and interest earned on investments.

California State University: Charges to students for housing and parking; student fees for campus unions, health centers, and self-supporting educational programs; and interest earned on investments.

Leasing of Public Assets: Rental charges from the lease of public assets and interest earned on investments.

State Lottery: Sale of lottery tickets.

Harbors and Watercraft: Fees related to boating activities.

Health Facilities Construction Loan Insurance: Construction project fees and income from operations or proceeds of sales of property acquired by default of borrowers.

Other Enterprise: Canteen revenues and processing fees charged by various other departments.

Table 20

Schedule of Enterprise Fund Activity by Separate Major Segments

As of and for the Year Ended June 30, 1996 (Amounts in thousands)

	Housing Loan	Water Resources	School Building Aid	Toll Facilities	California State University	Leasing of Public Assets	State Lottery	Harbors and Watercraft	Health Facilities Construction Loan Insurance	Other Enterprise
Operating revenue.....	\$ 292,277	\$ 480,720	\$ 25,676	\$ 141,227	\$ 240,689	\$ 330,536	\$ 2,292,325	\$ 14,316	\$ 16,936	\$ 74,434
Depreciation.....	849	57,902	3,720	—	—	—	10,489	—	—	2,226
Amortization (recovery) of deferred charges	—	(35,490)	—	430	—	15,279	1,803	—	—	—
Operating income (loss).....	(8,092)	188,226	(19,672)	103,805	62,295	33,842	798,437	(21,414)	1,848	(1,929)
Operating transfers in.....	11,144	—	—	—	23,824	1,066	—	28,548	—	16,247
Operating transfers out.....	11,144	—	20,477	12,051	43,403	1,064	—	—	—	517
Net income (loss).....	(2,619)	44,477	(18,847)	111,425	34,585	33,844	—	20,067	1,848	15,480
Grants received.....	—	—	—	—	481	—	—	—	—	—
Grants provided.....	—	—	—	13,276	—	—	—	—	—	—
Change in contributed capital										
Additions.....	—	—	—	—	718	—	—	—	—	737
Property, plant, and equipment										
Additions.....	—	269,393	—	39,980	36,186	—	29,816	40	—	2,315
Deductions.....	849	57,902	3,720	—	—	—	10,489	—	—	2,226
Net working capital.....	1,327,046	111,209	19,086	671,488	309,810	1,003,964	2,116,890	9,236	144,397	59,749
Total assets.....	3,786,727	4,957,953	348,988	1,702,739	1,056,304	5,703,359	2,754,760	281,652	145,642	148,548
Bonds and other long term liabilities.....	3,406,670	3,388,450	18,000	63,010	342,820	5,431,442	2,186,956	—	182	61,897
Total equity.....	289,929	1,092,370	268,231	1,622,318	639,883	98,907	—	206,059	144,223	53,569

NOTE 20.**CONTINGENT LIABILITIES**

Litigation: The State is a party to numerous legal proceedings, many of which normally occur in governmental operations. The following were accrued as a liability in the financial statements: legal proceedings that were decided against the State before June 30, 1996; legal proceedings that were in progress as of June 30, 1996, and that were settled or decided against the State as of November 27, 1996; and legal proceedings having a high probability of resulting in a decision against the State as of November 27, 1996, and for which amounts could be estimated. For governmental fund types and expendable trust funds, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made; the remainder is shown as a liability of the General Long-Term Obligations Account Group. For other fund types, the entire liability is recorded in the fund involved. In addition, the State is involved in certain other legal proceedings that, if decided against the State, may require the State to make significant future expenditures or may impair future revenue sources. Because of the prospective nature of these proceedings, no provision for this potential liability has been made in the financial statements.

Following are the more significant lawsuits pending against the State:

The State is involved in a lawsuit, *Thomas Hayes v. Commission on State Mandates*, related to state-mandated costs. The action involves an appeal by the Director of Finance from a 1984 decision by the State Board of Control (now succeeded by the Commission on State Mandates (Commission)). The Board of Control decided in favor of local school districts' claims for reimbursement for special education programs for handicapped students. The case was then brought to the trial court by the State and later remanded to the Commission for redetermination. The Commission has since expanded the claim to include supplemental claims filed by seven other educational institutions; the issuance of a final consolidated decision is anticipated sometime in early 1997. To date, the Legislature has not appropriated funds. The liability to the State, if all potentially eligible school districts pursue timely claims, has been estimated by the Department of Finance at more than \$1 billion.

The State is involved in a lawsuit related to contamination at the Stringfellow toxic waste site. In *United States, People of the State of California v. J. B. Stringfellow, Jr., et al.*, the State is seeking recovery for past costs of cleanup of the site, a declaration that the defendants are jointly and severally liable for future costs, and an injunction ordering completion of the cleanup. However, the defendants have filed a counterclaim against the State for alleged negligent acts. Because the State is the present owner of the site, the State may be found liable. Present estimates of the cleanup range from \$200 million to \$800 million.

The State is a defendant in a coordinated action involving 3,000 plaintiffs seeking recovery for damages caused by the Yuba River flood of February 1986. The trial court has found liability in inverse condemnation and awarded damages of \$500,000 to a sample of plaintiffs. The State's potential liability to the remaining plaintiffs ranges from \$800 million to \$1.5 billion. An appeal has been filed.

The State is a defendant in *California State Employees Association v. Wilson*, where the petitioners are challenging several budget appropriations in the 1994 and 1995 Budget Acts. The appropriations mandate the transfer of funds from the State Highway Account to the General Fund to reimburse the General Fund for debt service costs on two rail bond measures. The petitioners contend that the transfers violate the bond acts themselves and are requesting the monies be returned. The loss to the State's General Fund could be up to \$227 million.

In a similar case, *Professional Engineers in California Government v. Wilson*, the petitioners are challenging several appropriations in the 1993, 1994, and 1995 Budget Acts. The appropriations mandate the transfer of approximately \$262 million from the State Highway Account and \$113 million from the Motor Vehicle Account to the General Fund and appropriate approximately \$6 million from the State Highway Account to fund a highway-grade crossing program administered by the Public Utilities Commission. Petitioners contend that the transfers violate several constitutional provisions and request that the moneys be returned to the State Highway Account and Motor Vehicle Account.

The State is a defendant in *Just Say No To Tobacco Dough Campaign v. State of California*, where the petitioners challenge the appropriation of approximately \$166 million of Proposition 99 funds in the Cigarette and Tobacco Products Surtax Fund for years ended June 30, 1990, through June 30, 1995 for programs which were allegedly not health education or tobacco-related disease research. If the State loses, the General Fund and funds from other sources would be used to reimburse the Cigarette and Tobacco Products Surtax Fund for approximately \$166 million.

The State is a defendant in the case of *Kurt Hathaway, et al. v. Wilson, et al.*, where the plaintiffs are challenging the legality of various budget action transfers and appropriations from particular special funds for years ended June 30, 1995, and June 30, 1996. The plaintiffs allege that the transfers and appropriations are contrary to the substantive law establishing the funds and providing for interest accruals to the fund, violate the single subject requirement of the State Constitution, and is an invalid "special law." Plaintiffs seek to have monies totaling approximately \$335 million returned to the special funds.

The State is a defendant in two related cases, *Beno vs. Sullivan* (Beno) and *Welch vs. Anderson* (Welch), concerning reductions in

Aid to Families with Dependent Children (AFDC) grant payments. In the Beno case, plaintiffs seek to invalidate AFDC grant reductions and in the Welch case, plaintiffs contend that AFDC grant reductions are not authorized by state law. The Beno case concerns the total grant reductions while the Welch case concerns the period of time the State did not have a waiver for those reductions. The State's potential liability for retroactive AFDC grant reductions is estimated at \$831 million if the plaintiffs are awarded the full amount in both cases.

The State was a defendant in *California Teachers Association v. Russell S. Gould, et al.*, where the petitioners challenged a recharacterization of \$1.1 billion of appropriations for the 1991-92 fiscal year and \$190 million in the 1992-93 fiscal year as emergency loans rather than Proposition 98 funds. The petitioners were seeking a declaration that all appropriated funds are Proposition 98 funds and, therefore, must be included in the minimum funding guarantee for schools. The trial court ruled that the appropriations are not Proposition 98 funds and should not be included in the minimum funding calculation in future years.

The petitioners also challenged the Legislature's appropriation of \$973 million to schools in the 1992-93 fiscal year and \$787 million to schools in the 1993-94 fiscal year. The appropriations, which the Legislature called "emergency loans," were in excess of the Proposition 98 guarantee of minimum funding; the Legislature explicitly excluded those excess funds from being included in the future Proposition 98 minimum funding guarantee. The trial court found that amounts which the State appropriated to schools as loans in excess of the Proposition 98 guarantee were considered to be Proposition 98 funding and were required to be used to calculate the Proposition 98 requirement in future years. Moreover, the trial court found that the State cannot require schools to repay the appropriations which were characterized as loans. The parties have reached a settlement which provides that both the State and K-14 schools share in the repayment of prior years' emergency loans to schools. Of the total \$1.8 billion in loans, the State will repay \$935 million by forgiveness of the amount owed, while schools will repay \$825 million. The \$935 million forgiveness of the amount owed is included as 1995-96 fiscal year expenditures of the General Fund. The State's share of the repayment will be reflected as an appropriation above the current Proposition 98 base calculation. The schools' share of the repayment will count as appropriations that count toward satisfying the Proposition 98 guarantee, or from "below" the current base.

Federal Audit Exceptions: The State receives substantial funding from the federal government in the form of grants and contracts. The State is entitled to these resources only if it complies with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; the State may spend these resources only for eligible purposes. If audits disclose exceptions, the State may incur a liability to the federal government.

NOTE 21.

DEFERRED COMPENSATION PLANS

The State administers a long-term tax deferred savings program designed to supplement the retirement income of state employees. This program is comprised of a deferred compensation plan (457), in accordance with Section 457 of the Internal Revenue Code, and a thrift plan (401(k)), in accordance with Section 401(k) of the Internal Revenue Code. In addition, this program includes a mandatory retirement plan for employees covered by neither the Public Employees Retirement System (PERS) nor Social Security called the Part-Time, Seasonal and Temporary Plan (PST).

The 457 and 401(k) plans are optional plans for eligible employees. Employees under each plan defer receiving portions of their salaries, thereby deferring taxation on these portions, until they leave State service or face a serious financial emergency. Participants of the 457 and 401(k) plans direct the State to invest the deferred amounts among various investment options. The State makes no contribution to any of these plans and the cost of the program is paid through administrative fees by the program participants. The assets in the 457 plan remain the property of the employer until paid or made available to participants, subject only to the claims of the State's general creditors. The assets of the 401(k) plan are held for the participants in a trust.

The PST plan is a mandatory plan for employees who are not members of the State's retirement system and who are not covered by social security. The State invests PST plan participants' deferred amounts into an investment option of the State's choosing. The State makes no contribution to the PST plan, but the administrative costs to run the PST program are paid by the State.

The State of California has no liability for losses under the plans but does have the responsibility to administer the plans in good faith. As of June 30, 1996, the market value of the three plans was approximately \$2.5 billion for the 457 plan, \$293 million for the 401(k) plan, and \$42 million for the PST plan. The plans are accounted for as agency funds.

NOTE 22.

PENSION TRUSTS

The State has two retirement systems: the California Public Employees' Retirement System (CalPERS) and the State Teachers' Retirement System (STRS).

CalPERS administers four defined benefit retirement plans: the Public Employees' Retirement Fund (PERF), the Judges' Retirement Fund (JRF), the Judges' Retirement Fund II (JRF II), and the Legislators' Retirement Fund (LRF). CalPERS also administers one defined benefit award plan, the Volunteer Firefighters' Length of

Service Award Fund (VFF). The financial report of CalPERS may be obtained by writing to the California Public Employees' Retirement System, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715. STRS administers one defined benefit contributory retirement plan. The financial report of STRS may be obtained from the State Teachers' Retirement System, Accounting Division, 7667 Folsom Blvd., 2nd Floor, Sacramento, California 95826. The other pension funds are included in the fiduciary fund type.

Standardized Measure of Pension Benefit Obligation: Additional information for the State of California is presented during this transition period prior to the adoption of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. This additional information includes the disclosure of the pension benefit obligation, as described below.

In order for users of governmental financial reports to assess the progress made in accumulating sufficient assets to pay benefits when due and to make comparisons among employers, GASB Statement No. 5 requires disclosure of a standardized measure called the pension benefit obligation (PBO). This measure is independent of the actuarial funding method used to determine employer contributions. The PBO is the actuarial present value of credited projected pension benefits (including projected future salary increases) estimated to be payable in the future as a result of employees' service to date.

The PBO for CalPERS was computed as part of an actuarial valuation performed as of June 30, 1995, which is the latest available valuation. The STRS PBO for June 30, 1996, was estimated based on the actuarial valuation as of June 30, 1995.

Summary of Significant Accounting Policies - CalPERS:

Basis of Accounting: CalPERS uses the accrual basis of accounting. Contributions are recorded when due. Investment income is recognized when earned, and expenditures are recorded when incurred.

Investments: CalPERS investments are presented at fair value. Statutes authorize CalPERS to invest in stocks, bonds, mortgages, real estate, and other investments. CalPERS maintains certain deposits, cash equivalents, and other investments with financial institutions.

The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock, less an appropriate discount.

Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental property subject to long-term net leases, has been estimated based on independent appraisals. Short-term investments are reported at market value, when published market prices and quotations are available, or at cost plus accrued interest, which approximates market value. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments.

Derivatives: In accordance with statutes authorizing CalPERS investments, CalPERS, through its outside investment managers, holds investments in futures and options and enters into forward foreign currency exchange contracts. Futures and options of approximately \$20 million are held for investment purposes at June 30, 1996. Forward foreign currency exchange contracts are used primarily to hedge against changes in foreign equities, primarily denominated in European and Asian currencies. At June 30, 1996, CalPERS has approximately \$93 million net exposure to loss from forward foreign currency exchange transactions related to the \$20.2 billion international debt and equity portfolios.

CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. CalPERS anticipates that the counterparties will be able to satisfy their obligations under the contracts. CalPERS' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures.

Related Party Investments: CalPERS avoids related party investments as part of its written investment policy and no known related party investments exist in the fund.

Actuarially Determined Funding Policy: CalPERS uses a modification of the Entry Age Normal Actuarial Cost Method, which is a projected benefit cost method for PERF, LRF, JRF, and JRF II. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued.

According to this cost method, the normal cost for an employee PBO is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. CalPERS uses a modification of the Entry Age Normal Cost Method in which the employer's total normal cost is expressed as a level percentage of payroll. CalPERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. The amortization period of the unfunded actuarial liability is no longer than 17 years for school employees, 30 years for contracting public agencies, 35 years for the State of California, 40 years for LRF, and 6.5 years for

JRF. The VFF used the Unit Credit Actuarial Method as the basis for its valuation.

A. Public Employees' Retirement Fund

1. Fund Information

Plan Description: CalPERS administers the PERF, an agent multiple-employer retirement plan. Employers participating in the PERF include the State of California, 61 school employers, and 1,273 public agencies.

Unfunded Pension Benefit Obligation: The assets in excess of the PBO of PERF was \$3.1 billion at June 30, 1995. This is a result of the difference between the actuarial value of assets of \$83.8 billion and the PBO of \$80.7 billion. Contributions are actuarially determined.

2. State of California Information

Employers' Information - Contributions and Reserves

Plan Description: The State of California contributes to the Public Employees' Retirement Fund (PERF), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent of the State of California and the other member agencies. The payroll for state employees covered by the PERF in the year ended June 30, 1996, was approximately \$8.9 billion. The total payroll for state employees in the year ended June 30, 1996 was approximately \$9.6 billion, not including the University of California.

All employees who work on a half-time basis or more are eligible to participate in the PERF. The PERF administers several different retirement plans, each providing a monthly allowance based on age, years of credited service, and highest average compensation over 12 consecutive months. Vesting occurs after five or ten years, depending on the plan. All plans provide death and disability benefits. The benefit provisions for the State are established by statute.

Costs of administering the Plan are financed through the contributions and investment earnings of the Plan.

Employee and Employer Contribution Obligations: State employees, with the exception of employees in the second-tier plan, are required to contribute to the fund. The contribution rates, based on the actuarial valuation, vary between plans. The required contribution rates of active plan members is based on a percentage of salary over a base compensation amount of \$238 to \$863 monthly. With the exception of employees in the second-tier plan, state employees required contributions vary from 5% to 8% of their salary over their base compensation amount.

For the year ended June 30, 1996, the required employer contribution rates are shown in Table 21.

Table 21**Schedule of Required Contribution Rates for the State by Member Category**

June 30, 1996

	Normal Cost	Unfunded Liability	Total Rate
Miscellaneous members:			
First tier.....	9.415 %	2.935 %	12.350 %
Second tier.....	6.588	1.738	8.326
Industrial.....	9.824	(0.843)	8.981
California Highway Patrol.....	14.287	0.491	14.778
Police officers and Firefighters.....	14.631	(0.281)	14.350
Other safety members.....	14.107	0.121	14.228

Funding Status and Progress: The unfunded PBO for the State of California, as adjusted to fair value, based on the standardized measure of the PBO, which uses the Projected Unit Credit Actuarial Method, as appears in the actuarial valuation, was \$1.5 billion at June 30, 1995, as shown in Table 22.

Table 22**Schedule of the Unfunded Pension Benefit Obligation for the State of California**

June 30, 1995 (Amounts in millions)

Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits.....	\$ 18,478
Current employees:	
Accumulated employee contributions, including:	
allocated investment earnings.....	5,108
Employer-financed vested.....	12,366
Employer-financed nonvested.....	420
Total pension benefit obligation.....	36,372
Net assets allocated to fund the pension benefit obligation, at smoothed market value.....	34,889
Unfunded Pension Benefit Obligation.....	\$ 1,483

Following are the significant actuarial assumptions used to calculate the above PBO and the actuarially determined contributions presented in the next paragraph. The actuarially assumed investment return is 8.5% per annum. The salary scale used assumes salary increases that vary by length of service. The total increase in any future year includes an assumed 4.5% inflation rate, a 0.0% across the board increase and merit increases that vary by length of service. There was no change in the PBO as of June 30, 1995, as a result of changes in benefit provisions or actuarial methods and assumptions.

Contributions Actuarially Determined and Contributions Made: The total net retirement contributions for the year ended June 30, 1996, amounted to \$1.5 billion, of which \$1.1 billion or 12% of covered payroll came from the employers and \$0.4 billion or 4% of covered payroll came from the members. The actuarially determined required employer contributions will be reduced by approximately \$50 million due to the usage of surplus credits resulting from actuarial valuations. Contributions were made in accordance with actuarially determined requirements. Employer normal cost is 10.36% of covered payroll and amortization of unfunded liabilities is 1.82% of covered payroll. The State of California General Fund employer contribution for the year ended June 30, 1996, is \$587 million; this amount is not required to be paid until July 1, 1997.

Trend Information: Table 23 shows trend information for the PERF as of and for the years ended June 30, 1993, 1994, and 1995. Additional trend information is available in the separately issued financial report of CalPERS for the year ended June 30, 1996.

Table 23

Schedule of Trend Information for the Public Employees' Retirement Fund

As of and for the Years Ended June 30 (Amounts in millions)

	1995	1994	1993
Net assets available for benefits.....	\$ 34,889	\$ 32,550	\$ 27,477
Pension benefit obligation.....	36,372	33,552	31,560
Unfunded pension benefit obligation.....	1,483	1,002	4,083
Annual covered payroll.....	\$ 8,618	\$ 8,026	\$ 7,487
Employer Contributions.....	1,001	852	806
Percent funded.....	95.92 %	97.01 %	87.06 %
Unfunded pension benefit obligation as a percentage of covered payroll.....	17.21 %	12.48 %	54.53 %
Employer contributions as a percentage of covered payroll.....	11.62 %	10.62 %	10.77 %

B. Judges' Retirement Funds

Plan Description: CalPERS administers the Judges Retirement Fund (JRF) and the Judges Retirement Fund II (JRF II), which are agent multiple employer defined benefit retirement plans. The membership of JRF includes justices of the Supreme Court and courts of appeal, and judges of superior courts and municipal courts appointed or elected prior to November 9, 1994. The membership of JRF II includes justices of the same courts who were appointed or elected subsequent to November 9, 1994. There are 59 employers participating in the JRF and 28 employers participating in the JRF II. The payroll for employees covered by JRF and JRF II in 1995 was approximately \$154 million and \$8 million respectively. The State of California pays the employer contributions for all employees covered by JRF and JRF II.

The required contribution rates of active plan members is based on a percentage of salary over a base compensation amount. For the year ended June 30, 1996, the required contribution rates for JRF and JRF II are 8.0%.

The funding to meet benefit payment requirements of JRF, other than member contributions, is currently provided from the following sources: employer contributions, which require 8.0% of applicable member compensation; filing fees, which require varying amounts, depending on fee rate and number of filings; investments, which earn the current yield on short-term investments; and the State of California balancing contributions, as required by the Judges' Retirement Law, which are equal to an amount at least equal to the estimated benefits payable during the ensuing fiscal year less the sum of (1) the estimated member contributions during the ensuing fiscal year, and (2) net assets available for benefits at the beginning of the fiscal year.

For the year ended June 30, 1996, the employer contribution rate for the JRF II was 18.8% of applicable member compensation. Costs of administering the plan are financed through the contributions and investment earnings of the plan.

All justices and judges are required to participate in the JRF and JRF II. JRF and JRF II provide a monthly allowance based on age, years of credited service, and highest average compensation over an established period of time of one year. Vesting occurs after five years. Both plans provide death and disability benefits. The benefits for the JRF are established by the Judges' Retirement Law. The benefits for the JRF II are established by the Judges' Retirement System II Law.

Funding Status and Progress: The unfunded PBO for the JRF, based on the standardized measure, which uses the Projected Unit Credit Actuarial Method as appears in the actuarial valuation at June 30, 1995 was \$1.3 billion, as shown in Table 24. An actuarial valuation has not been performed for JRF II using the standardized measure of PBO.

Table 24
**Schedule of the Unfunded Pension Benefit Obligation
for the Judges' Retirement Fund**

June 30, 1995 (Amounts in millions)

Pension Benefit Obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits.....	\$ 785
Current employees:	
Accumulated employee contributions, including allocated investment earnings.....	97
Employer-financed vested.....	302
Employer-financed nonvested.....	129
Total pension benefit obligation.....	1,313
Net assets available for benefits at cost.....	9
Unfunded Pension Benefit Obligation.....	\$ 1,304

Following are the significant actuarial assumptions used to calculate the above PBO and the actuarially determined contributions presented in the next section. The actuarially assumed investment return is 8.5% per annum. The salary scale used assumes salary increases of 4.75% per annum. The total increase in any future year includes an assumed 4.5% inflation rate. There was no change in the PBO as of June 30, 1995, as a result of changes in benefit provisions or actuarial methods and assumptions.

Actuarial valuations for the JRF II are required to be carried out annually. The legislated State contribution rate will be adjusted periodically as part of the annual Budget Act in order to maintain or restore the actuarial soundness of the fund. The initial actuarial valuation was performed as of June 30, 1995. As of June 30, 1995, based on the actuarially determined funding policy, the fund was overfunded by approximately \$168,000. Also, for the year ended June 30, 1995, the total net contributions to the fund were \$239,000, which is greater than the actuarially determined required contributions.

Contributions Actuarially Determined and Contributions Made: The contribution requirements of the JRF are not actuarially determined. Contribution requirements are pursuant to state statute. An actuarial valuation of JRF's assets and liabilities is made at least every two years. The last valuation was performed as of June 30, 1995. Such valuations are used by CalPERS to make recommendations for financing the JRF. For JRF the normal cost is 15.89% of covered payroll. For the year ended June 30, 1995, the actual contributions made by the State to JRF were approximately \$50 million or 31% of the covered payroll, which is materially less than the actuarially determined contributions of approximately \$251 million, which is necessary to be fully funded by January 1, 2002. For the year ended June 30, 1995, actual contributions made by employees were \$12 million or 8% of covered payroll.

Contributions are actuarially determined for JRF II. The actuarial accrued liability was determined as part of an actuarial valuation of the retirement plan performed as of June 30, 1995, which is the latest available valuation. As of June 30, 1995, the statutory contribution rate for JRF II was 18.8% of covered payroll and there was no unfunded liability to amortize. The total net retirement contributions for JRF II for the year ended June 30 1996, amounted to \$2.1 million of which \$1.5 million or 18.8% of covered payroll came from employers and \$0.6 million or 8% of covered payroll came from members.

Trend Information: Table 25 shows trend information for the JRF as of and for the years ended 1993, 1994, and 1995. Table 25 reports the combined annual covered payroll of both JRF and JRF II, because the actuaries assume that the combined total will be the basis for the amortization of the unfunded past service liability. Additional trend information is available in the separately issued financial report of CalPERS for the year ended June 30, 1996.

Table 25

Schedule of Trend Information for the Judges' Retirement Fund

As of and for the Years Ended June 30 (Amounts in millions)

	1995	1994	1993
Net assets available for benefits..... \$	9	\$ 15	\$ 24
Pension benefit obligation.....	1,313	1,200	1,315
Unfunded pension benefit obligation.....	1,304	1,185	1,291
Annual covered payroll..... \$	162	\$ 161	\$ 153
Employer and State General Fund contributions..	50	42	63
Percent funded.....	0.69 %	1.25 %	1.83 %
Unfunded pension benefit obligation as a percentage of covered payroll.....	804.94 %	736.02 %	843.79 %
Employer contributions as a percentage of covered payroll.....	30.86 %	26.09 %	41.18 %

**C. Legislators'
Retirement Fund**

Plan Description: CalPERS administers the Legislators' Retirement Fund (LRF), which is an agent single-employer defined benefit retirement plan. The membership of LRF includes state legislators, constitutional officers and legislative statutory officers. The payroll for employees covered by LRF in 1995 was approximately \$4.6 million.

The required contribution rates of active plan members is based on a percentage of salary over a base compensation amount. For the year ended June 30, 1996, the required contribution rates for LRF was 4% of pay for members elected before March 4, 1972, and 8% of pay for members elected thereafter.

The required State contribution rate is 18.81% of applicable member compensation, for the year ended June 30, 1996. Costs of administering the plan are financed through the contributions and investment earnings of the plan.

All members are eligible to participate in the LRF. The LRF provides a monthly allowance based on age, years of credited service, and the highest compensation while in office. Vesting occurs after four years. The plan provides death and disability benefits. The benefits for the LRF are established by the Legislators' Retirement Law.

Funding Status and Progress: The unfunded PBO for the LRF based on the standardized measure of the PBO, which uses the Projected Unit Credit Actuarial Method as appears in the actuarial valuation at June 30, 1995, was \$10 million, as shown in Table 26.

Table 26

Schedule of the Unfunded Pension Benefit Obligation for the Legislators' Retirement Fund

June 30, 1995 (Amounts in thousands)

Pension Benefit Obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits.....	\$ 73,472
Current employees:	
Employee contributions.....	6,506
Employer-financed vested.....	15,409
Employer-financed nonvested.....	4,142
Total pension benefit obligation.....	99,529
Net assets available for benefits at cost (market value was \$93,612).....	89,156
Unfunded Pension Benefit Obligation.....	\$ 10,373

Following are the significant actuarial assumptions used to calculate the above PBO and the actuarially determined contributions presented in the following section. The actuarially assumed investment return is 7.75% per annum. The salary scale used assumes salary increases of 4.5% per annum. The total increase in any future year includes an assumed 4.5% inflation rate. There was no change in the PBO as of June 30, 1995, as a result of changes in benefit provisions or actuarial methods and assumptions.

Contribution Required and Contribution Made: The contribution requirements of the LRF are based on actuarially determined rates. An actuarial valuation of LRF's assets and liabilities is made at least every two years. The last valuation was performed as of June 30, 1995. As of June 30, 1995, the State funding rate was 18.81% of covered payroll. The amortization period of the unfunded actuarial liability is 40 years for the LRF. For the LRF, the normal cost is 26.23% of covered payroll and the amortization of unfunded liabilities is 12.09% of covered payroll, for a combined rate of

38.32% of covered payroll. For the year ended June 30, 1995, the actual state contributions made to the LRF were approximately \$576,000 or 12.5% of covered payroll, which is materially less than the actuarially determined required contributions of approximately \$1.9 million. For the year ended June 30, 1995, the actual contributions made by employees were approximately \$419,000 or 9% of covered payroll.

Trend Information: Table 27 shows trend information related to the LRF as of and for the years ended June 30, 1993, 1994, and 1995. Additional trend information is available in the separately issued financial report of CalPERS for the year ended June 30, 1996.

Table 27**Schedule of Trend Information for the Legislators' Retirement Fund**

As of and for the Years Ended June 30 (Amounts in thousands)

	1995	1994	1993
Net assets available for benefits.....	\$ 89,156	\$ 82,417	\$ 72,695
Pension benefit obligation.....	99,529	97,248	95,104
Unfunded pension benefit obligation.....	10,373	14,831	22,409
Annual covered payroll.....	\$ 4,630	\$ 5,503	\$ 5,788
State contributions.....	576	596	698
Percent funded.....	89.58 %	84.75 %	76.44 %
Unfunded pension benefit obligation as a percentage of covered payroll.....	224.04 %	269.51 %	387.16 %
Employer contributions as a percentage of covered payroll.....	12.44 %	10.83 %	12.06 %

D. Volunteer Firefighters' Length of Service Award Fund

Plan Description: CalPERS administers the Volunteer Firefighters' Length of Service Award Fund (VFF), an agent multiple-employer public employee defined benefit award plan. It currently has 30 participating fire departments.

Net Assets Available in Excess of Total Award Benefit Obligation: The VFF did not have an unfunded benefit obligation at June 30, 1995. The net assets available in excess of total award benefit obligation for the VFF based on the standardized measure, which uses the Projected Unit Credit Actuarial Method as appears in the actuarial valuation at June 30, 1995, was \$116,000. This is the result of the difference between the net assets available for benefits of \$931,000 and the total award benefit obligation of \$815,000. The total award benefit obligation was determined as part of an actuarial valuation of the retirement plan performed as of June 30, 1995, which is the latest available valuation.

E. State Teachers' Retirement System

Plan Description: The State Teachers' Retirement System (STRS) is the administrator of the Teachers' Retirement Fund (TRF), a cost-sharing multiple-employer defined benefit retirement plan that provides pension benefits to teachers and certain other employees of

the California public school system. At June 30, 1996, the TRF had approximately 1,095 contributing employers, including school districts, community college districts, and county offices of education. The State is a nonemployer contributor to the TRF. The payroll for employees covered by TRF in 1996 was approximately \$13.3 billion.

For the year ended June 30, 1996, the required contribution rate for TRF covered members is 8% of applicable member earnings, and the required employer contribution rate is 8.25% of applicable member compensation.

Beginning July 1, 1991, full funding of TRF is provided by statute. The State's required annual contribution to the TRF is 4.3% of the previous calendar year's teacher payroll. Subsequent to achieving a full funding, the State will contribute only the amount necessary to help fund the normal cost.

In 1989, TRF was required by statute to provide distributions to retirees, disabilitants, and beneficiaries in order to restore purchasing power to a minimum of 68.2% of the initial monthly allowance. The statute required TRF to advance funds for the distribution, until such time as the state contributions were sufficient to meet the purchasing power obligations. The State is required to repay the amount of advances by TRF with interest. Full repayment to TRF is anticipated to occur by 1997. Additionally, under certain provisions of the California Education Code, employers are required to make contributions of 0.415% of the payroll to the State. These contributions are appropriated by the State to TRF.

Membership in the pension plan is mandatory for all employees meeting the eligibility requirements. This plan provides defined retirement benefits based on members' final compensation, age, and years of service. In addition, the retirement program provides benefits to members upon disability, and to survivors upon the death of eligible members. After five years of credited California service, members become 100% vested in retirement benefits earned to date. The benefits for the plan are established by the State Teachers' Retirement Law.

Summary of Significant Accounting Policies:

Basis of Accounting: The accounting records of the STRS are maintained on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and State contributions are recognized when due and the employer or State has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the STRS retirement program.

Investments: The majority of the securities held in the investment

portfolio at June 30, 1996, are in the custody of or controlled by the State Street Bank and Trust Company, the master custodian of the STRS. The investments of the STRS consist of government, corporate, and international bonds, domestic and international equities, mutual funds, limited partnerships holdings, real estate, mortgages and other investments.

All investments are recorded at fair value. The fair values of investments are generally based on published market prices and quotations from major investment firms. In the case of debt securities acquired through private placements, fair value is computed by management based on market yields and average maturity dates of comparable quoted securities. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Real estate equity investment fair values represent the most recent independent appraisals (conducted in the year ended June 30, 1996), updates to appraisals for the year ended June 30, 1995, of properties purchased prior to the year ended June 30, 1996, and current value estimates for properties purchased in the current year. Short-term investments are reported at cost, which approximates fair value.

Purchase and sales of debt securities, equity securities, and short-term investments are recorded on the trade date. Real estate equity transactions are recorded on the settlement date. Upon sale of investments, the difference between sales proceeds and historical cost is reflected in the statement of changes in fund balance.

Debt discounts are accredited to the bond maturity date and premiums are amortized to the earliest call date using an approximation of the interest method. Mortgage loan discounts are accreted over a 20-year period using the pay-down method.

Funding Status and Progress: The unfunded PBO for the TRF based on the standardized measure of the PBO, which uses the Projected Unit Credit Actuarial Method as appears in the estimate for June 30, 1996 based on the actuarial valuation at June 30, 1995, was \$848 million, as shown in Table 28.

Table 28

**Schedule of the Unfunded Pension Benefit Obligation for
the Teacher's Retirement Fund**

June 30, 1996 (Amounts in millions)

Pension Benefit Obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits.....	\$ 27,885
Current employees:	
Accumulated employee contributions, including allocated investment earnings.....	15,904
Employer-financed vested.....	19,894
Employer-financed nonvested.....	620
Total pension benefit obligation.....	64,303
Net assets available for benefits at fair value.....	63,455
Unfunded Pension Benefit Obligation.....	\$ 848

Following are the significant actuarial assumptions used to calculate the above PBO. The fair market value of assets is the asset valuation method. The actuarially assumed investment return is 8.0% per annum. The salary scale used assumes salary increases of 5.5% per annum. The total increase in any future year includes an assumed 4.5% inflation rate. There was no change in the PBO as of June 30, 1996, as a result of changes in benefit provisions or actuarial methods and assumptions.

Contribution Required and Contribution Made: The contribution requirements of the TRF are not actuarially determined. The contribution requirements of the TRF are determined by statute. STRS employs an actuary to determine the adequacy of the funding of the plan, including the contribution levels. Based on the June 30, 1996 estimate, STRS independent actuaries determined that the estimated amortization period for the unfunded obligation computed using the cost method and the statutory contribution rates was 18 years from July 1, 1995. The annual required contribution by employers and the State for the year ended June 30, 1996, equaled the total amount contributed of \$1.7 billion. The employers' annual required contribution equaled \$1.2 billion, or 9.02% of covered payroll. The annual required contribution of the State was \$530 million, or 3.98% of covered payroll. Employees contributed \$1.1 billion, or 8.27% of covered payroll.

In addition to the \$530 million, the State made contributions to the TRF of approximately \$225 million for state mandates and to repay advances which provided for the restoration of the purchasing power of retirees, disabilitants, and beneficiaries.

An actuarial valuation of TRF's assets and liabilities is made at least every two years. The last valuation was performed as of June 30, 1995.

Trend Information: Table 29 shows trend information related to the

TRF as of and for the years ended 1994, 1995, and 1996. Additional trend information is available in the separately issued financial report of the STRS for the year ended June 30, 1996.

Table 29**Schedule of Trend Information for the Teachers' Retirement Fund**

As of and for the Years Ended June 30 (Amounts in millions)

	1996	1995	1994
Net assets available for benefits.....	\$ 63,455	\$ 55,862	\$ 47,631
Pension benefit obligation.....	64,303	59,986	57,049
Unfunded pension benefit obligation.....	848	4,124	9,418
Annual covered payroll.....	\$ 13,300	\$ 12,688	\$ 12,251
State Contributions.....	755	733	759
Percent funded.....	98.68 %	93.13 %	83.49 %
Unfunded pension benefit obligation as a percentage of covered payroll.....	6.38 %	32.50 %	76.88 %
Employer contributions as a percentage of covered payroll.....	5.68 %	5.78 %	6.20 %

NOTE 23.**POST-RETIREMENT HEALTH CARE BENEFITS**

In addition to providing pension benefits, the State provides health care and dental benefits to annuitants of retirement systems to which the State contributes as an employer. To be eligible for these benefits, first-tier plan annuitants must retire from the State on or after attaining age 50 with at least five years of service, and second-tier plan annuitants must retire from the State on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from state employment to be eligible to receive these benefits. As of June 30, 1996, approximately 93,000 annuitants were enrolled to receive health benefits and approximately 88,000 annuitants were enrolled to receive dental benefits. In accordance with the Government Code, the State generally pays 100% of the health insurance cost for annuitants plus 90% of the additional premium required for the enrollment of family members of annuitants. Although the State generally pays 100% of the dental insurance premium for annuitants, the Government Code does not specify the State's contribution toward dental insurance costs. The State recognizes the cost of providing health and dental insurance to annuitants on a pay-as-you-go basis. The cost of these benefits for the year ended June 30, 1996, was approximately \$267 million. This amount decreased over the previous year due to a decrease in health insurance premiums.

NOTE 24.**SUBSEQUENT EVENTS**

The following information represents significant events that occurred subsequent to June 30, 1996, but prior to the date of the auditors' report.

On August 6, 1996, the State issued \$3.0 billion in revenue anticipation notes that will mature on June 30, 1997. On November 7, 1996, the State issued \$129 million in general obligation bonds and \$371 million in general obligation refunding bonds, which were used to retire previously issued commercial paper. From July 1, 1996, to November 27, 1996, the State issued approximately \$549 million in revenue bonds. Refunding bonds that are used to refinance existing debt accounted for approximately \$499 million of the revenue bonds.

In the general election held on November 5, 1996, voters approved the sale of general obligation bonds with the passage of Propositions 204 and 206. Proposition 204, the "Safe, Clean, Reliable Water Supply Act," authorizes the issuance of \$995 million in bonds. Proposition 206, the "Veterans' Bond Act of 1996," authorizes the issuance of \$400 million in bonds.

NOTE 25.**BUILDING AUTHORITIES**

Building Authorities have been created through the use of Joint Exercise of Powers Agreements with various cities to finance the construction of state buildings. The building authorities are legally separate from the State of California. They meet the criteria of blended component units and are being reported as capital projects funds. As a result, the capital lease arrangements between the building authorities and the State of \$320 million have been eliminated from the combined balance sheet. Instead, only the underlying fixed assets and the debt used to acquire them are reported in the appropriate account groups. Information on revenue bonds and certificates of participation are included in Note 15 and Note 10, respectively. Below is a list and description of these five building authorities:

The **Oakland State Building Authority** was created in 1994 by a Joint Exercise of Powers Agreement (JPA) between the State, acting through the director of the Department of General Services, and the Oakland Redevelopment Agency, for the purpose of financing the acquisition of land and to plan, design, and complete the construction of the Elihu M. Harris Building, as well as the leasing and financing required to accomplish these goals and administer these tasks. Copies of the financial statements may be obtained from the Oakland State Building Authority, 300 Lakeside Drive, Suite 130, Oakland, California 94612-3534.

The **East Bay State Building Authority** was created in 1989 by a JPA between the Department of General Services, the Department of

Transportation, and the City of Oakland for the purpose of financing the acquisition of land and the construction of a Department of Transportation state office building and parking facilities. Copies of the financial statements may be obtained from the East Bay State Building Authority, 111 Grand Avenue, Oakland, California 94612.

The **Los Angeles State Building Authority** was created in 1982 by a JPA between the State, acting through the director of the Department of General Services, and the Community Redevelopment Agency of the City of Los Angeles, for the purpose of financing the construction of a Los Angeles state office building. Copies of the financial statements may be obtained from the Los Angeles State Building Authority, 300 South Spring Street, Los Angeles, California 90013.

The **San Francisco State Building Authority** was created in 1982 by a JPA between the State, acting through the director of the Department of General Services, and the Redevelopment Agency of the City and County of San Francisco, for the purpose of financing the acquisition of land and the design and construction of a state building. Copies of the financial statements may be obtained from the San Francisco State Building Authority, San Francisco Redevelopment Agency, 770 Golden Gate Avenue, San Francisco, California 94102.

The **California State University and Colleges Headquarters Building Authority** was created in 1972 by a JPA between the City of Long Beach and the Trustees of the California State University and Colleges for the purpose of acquiring, constructing, maintaining, operating, leasing, and subleasing buildings for public education purposes. This includes a headquarters building for the Trustees. Copies of the financial statements may be obtained from the California State University and Colleges Headquarters Building Authority, 400 Golden Shore, Suite 102, Long Beach, California 90802-4275.

NOTE 26.

DISCRETELY PRESENTED COMPONENT UNITS

A. University of California

The University of California (UC) was founded in 1868 as a public, State-supported institution. The California State Constitution grants the UC full powers of government, subject only to legislative control necessary to ensure the security of its funds and compliance with certain administrative requirements. The majority of the 26-member independent governing board—the Regents of the University of California—are appointed by the Governor and approved by the state Senate. In addition, various UC programs and capital outlay projects are funded through appropriations from the State's annual Budget Act. The UC is discretely presented in the State's general purpose financial statements. Copies of the UC's separately issued financial statements may be obtained from the University of California, Business and Finance, 21st Floor, 300 Lakeside Drive, Oakland, California 94612-3550.

Basis of Presentation: The financial statements of the UC have been prepared in conformity with GAAP, as outlined in Governmental Accounting Standards Board (GASB) Statement No. 15 and the American Institute of Certified Public Accountants College Guide Model, including all applicable GASB statements effective for the fiscal years through June 30, 1996.

The UC has entered into various capital lease agreements with the State Public Works Board. The State Public Works Board issues revenue bonds to finance the construction of these leased facilities. The UC records the liability and the related trustee investments and fixed assets in the financial statements. For the year ended June 30, 1996, the outstanding liability recorded as capital leases was \$1.1 billion. This amount represents the total liability for the revenue bonds issued by the State Public Works Board to finance the construction of facilities for the UC.

Investments: Investments of all funds are stated at cost at the date of acquisition or, in the case of gifts, at quoted market value at the date of donation, with the exception of University of California Retirement System (UCRS) investments, which are stated at market value.

Substantially all of the UC's investments are held in funds associated with the Short Term Investment Pool (STIP), the General Endowment Pool (GEP), or UCRS. Investments authorized by the Regents for the STIP include fixed income securities with a maximum maturity of five years. Certain other investments which amount to \$582 million are held by the trustees, but are not included in Table 30. In addition, the Regents have also authorized loans to faculty members under the University's Mortgage Origination Program with terms up to 30 years. Investments authorized for the GEP and UCRS include equities and fixed-income securities. The equity portion of the investment portfolio may include common stocks, venture capital partnerships, and emerging market funds. Where donor agreements place constraints on allowable investments, assets associated with endowment and similar funds are invested in accordance with the terms of the agreements.

All of the UC's fund groups participate in the STIP. Current funds to provide for the payroll, operating expenses, and construction expenditures of all campuses and teaching hospitals are invested in the STIP until expended. These investments had a carrying value of \$3.5 billion and a market value of \$3.6 billion as of June 30, 1996. In the prior year, the STIP investments were recorded in the cash and pooled investments account. For this year, STIP investments are included in the investment account.

The GEP is a balanced portfolio in which a large number of individual endowment funds participate in order to benefit from diversification and economies of scale. These investments had a

carrying value of \$1.2 billion and a market value of \$2.4 billion as of June 30, 1996. The net assets of the endowment and similar funds group are either invested in the GEP or are separately invested. The separately invested funds that cannot be pooled in the GEP due to investment restrictions or income requirements had a carrying value of \$123 million, and a market value of \$173 million, as of June 30, 1996.

UCRS contains funds associated with the UC's defined benefits and defined contribution plans.

All of the UC's categorized investments are insured, registered or held by the UC's custodial bank as an agent for the UC in the UC's name. There are three categories of credit risk and the investments of the UC are category 1 investments. For an explanation of the various categories of credit risk, see Note 3. Table 30 presents the investments as of June 30, 1996.

Table 30**Schedule of Carrying Value of Investments by Fund Group**

June 30, 1996 (Amounts in thousands)

Investment Type	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	Total Cost	Market Value	UCRS Market Value
Corporate equity securities..... \$	425	\$ —	\$ 760,979	\$ —	\$ 761,404	2,012,416	19,014,691
U.S. and state government							
Obligations.....	1,120,915	20,958	309,985	342,412	1,794,270	1,865,275	4,050,410
Corporate debt securities.....	864,121	16,156	290,357	263,968	1,434,602	1,438,719	1,660,547
Foreign government							
obligations.....	2,200	36	101,903	804	104,943	106,362	1,122,150
Foreign debt securities.....	—	—	69,663	—	69,663	75,886	603,047
Venture capital.....	—	—	41,001	—	41,001	47,938	365,624
Mutual funds.....	—	—	49,070	—	49,070	59,015	289,320
Mortgage loans.....	174,632	—	2,789	2,453	179,874	179,264	—
Insurance contracts.....	—	—	—	—	—	—	157,899
Other investments.....	3,087	—	8,523	7,240	18,850	18,850	—
Total Investments.....	\$ 2,165,380	\$ 37,150	\$ 1,634,270	\$ 616,877	\$ 4,453,677	\$ 5,803,725	\$ 27,263,688

Cash deposits held in bank accounts at June 30, 1996, totaled approximately \$52 million. Of this amount, \$500,000 was insured by the FDIC.

Investments of \$284 million included in the plant funds group are held by trustees and pledged for future payments of principal, interest, construction, and renewal and replacement in accordance with various indenture requirements and other long-term debt agreements.

The UC participates in a securities lending program as a means to augment income. At June 30, 1996, securities with a market value of approximately \$5.0 billion were on loan to brokerage firms.

Due from Primary Government: The Due from Primary Government account balance reflects \$111 million that is the short-term portion of the amount due to UC for administrative expenses from the General Fund and special revenue funds.

Revenue Bonds and Other Long-Term Debt: Revenue bonds are secured by the revenues of the individual projects as well as certain other UC revenues. Certificates of participation have been issued to finance buildings and equipment under lease agreements. The certificates are secured by buildings and equipment.

Table 31 shows the aggregate maturities of long-term debt for each of the years subsequent to June 30, 1996.

Table 31**Schedule of University of California Long-Term Obligations**

(Amounts in thousands)

Year Ending June 30	Capital Leases	Revenue Bonds	Mortgages and Other Borrowings
1997.....	\$ 126,897	\$ 23,790	\$ 231,988
1998.....	116,722	32,215	43,297
1999.....	111,889	40,390	35,155
2000.....	105,106	44,505	38,444
2001.....	98,873	47,850	30,081
Thereafter.....	1,549,310	1,678,000	477,777
	2,108,797	\$ 1,866,750	\$ 856,742
Less: Interest component of future minimum payments.....	928,204		
Present value of future minimum payments.....	\$ 1,180,593		

The above liabilities do not include \$1.1 billion of various defeased liabilities. Investments which have maturities and interest rates sufficient to fund retirement of these liabilities are being held in irrevocable trusts for the debt service payments. Neither the assets of the trusts nor the outstanding obligations are included in the balance sheet.

University of California Retirement System

Plan Description: Most UC career employees participate in the University of California Retirement System (UCRS). UCRS consists of a single-employer, defined benefit plan funded with UC and employee contributions; a defined benefit plan for UC employees who elected early retirement under the PERS Voluntary Early Retirement Incentive Program (PERS-VERIP); and two defined contribution plans with several investment portfolios funded with employee non-elective and elective contributions.

Funding Policy: UCRS is funded through UC and employee contributions. The annually determined rates for employer contributions as a percentage of payroll are based on recommendations of the consulting actuary and appropriations received from the State. Employer contributions were not required during the fiscal year ended June 30, 1996.

As of June 30, 1996, the total net assets available in excess of the PBO for covered employees is determined as shown in Table 32:

Table 32

Schedule of the Net Assets Available in Excess of the Pension Benefit Obligation

June 30, 1996 (Amounts in thousands)

Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits.....	\$ 7,514,400
Current employees:	
Employee contributions.....	755,600
Employer-funded vested.....	7,284,800
Employer-funded nonvested.....	522,700
Total pension benefit obligation.....	16,077,500
Actuarially determined assets available for benefits (market value of \$23,742,000).....	19,735,600
Net assets available in excess of the pension benefit obligation.....	\$ 3,658,100

Post-retirement Health Care Benefits: In addition to pension benefits, the UC provides certain health plan benefits to retired employees. Employees who meet specific requirements may continue their medical and dental benefits into retirement and continue to receive UC contributions for those benefits. There are approximately 34,000 retirees currently eligible to receive such benefits. The cost of retiree medical and dental coverage is recognized when paid. The cost of providing medical and dental benefits for retirees and their families and survivors in the year ended June 30, 1996, was \$91 million.

Commitments and Contingencies: As of June 30, 1996, the UC had authorized construction projects totaling \$1.0 billion.

The UC is contingently liable in connection with claims and contracts, including those currently in litigation, arising in the normal course of its activities. UC management and General Counsel are of the opinion that the outcome of such matters will not have a material effect on the financial statements.

Rental expenditures for operating leases totaled \$93 million during the year ended June 30, 1996. Minimum required payments for the year ended June 30, 1997, are \$51 million. These payments will decrease in subsequent years.

Subsequent Event: In July 1996, Hospital Revenue Bonds totaling \$346 million were issued for the purpose of financing and refinancing the costs of the acquisition, construction and equipping of certain health care and related facilities at the University of California, Davis Medical Center. Approximately \$112 million of the proceeds were applied to repay interim financing incurred prior to the issuance of the bonds. The bonds have annual principal and semiannual interest payments, an average interest rate of six percent, serial maturities, term bonds with sinking fund requirements and optional redemption provisions.

B. Special Purpose Authorities

The **State Compensation Insurance Fund (SCIF)** is a self-supporting enterprise created to offer insurance protection to employers at the lowest possible cost. It operates in competition with other insurance carriers to provide services to the State, county, city, school district, or other public corporations. The SCIF is legally separate from the State. It is a component unit of the State because the State appoints all five voting members of the SCIF's governing board and has the authority to approve or modify the budget for support of the SCIF to run the workers' compensation benefit program. Copies of the SCIF's financial statements may be obtained from the State Compensation Insurance Fund, 1275 Market Street, San Francisco, California 94103.

The **California Housing Finance Agency (CHFA)** was created for the purpose of meeting the housing needs of persons and families of low and moderate income by providing a low-cost source of financing. Copies of the CHFA financial statements may be obtained from CHFA, 1121 L Street, Sacramento, California 95814.

State legislation created various other **Non-Major Component Units** to provide certain services outside the State and to provide certain private and public entities with a low-cost source of financing for programs deemed to be in the public interest. Non-Major Component Units are legally separate from the State, provide services outside of the State, and meet the other criteria of discretely presented component units. Any debt of the Non-Major Component Units is collateralized solely by the credit of the private and public entities and is administered by trustees independent of the State or the State Treasurer's Office. At June 30, 1996, the Non-Major Component Units had \$10.4 billion of debt outstanding, which is not debt of the State. Copies of the financial statements of these component units may be obtained from the Office of the State Controller, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5876.

Tables 33 and 34 present summary financial statements for all major discretely presented component units and aggregate information for the Non-Major Component Units.

Table 33
Condensed Balance Sheet
Component Units – Special Purpose Authorities

June 30, 1996 (Amounts in thousands)

	State Compensation Insurance	California Housing Finance Agency	Non-Major Component Units	Total
Assets:				
Due from primary government.....	\$ 9,965	\$ —	\$ 3,546	\$ 13,511
Due from other funds.....	—	—	739	739
Other current assets.....	1,114,452	395,345	138,555	1,648,352
Investments.....	5,913,923	975,760	4,098	6,893,781
Advances and loans receivable.....	—	3,731,656	4,478	3,736,134
Fixed assets.....	219,548	—	311,908	531,456
Total Assets.....	\$ 7,257,888	\$ 5,102,761	\$ 463,324	\$ 12,823,973
Liabilities:				
Due to other funds.....	\$ —	\$ —	\$ 743	\$ 743
Other current liabilities.....	1,043,830	303,519	20,351	1,367,700
Benefits payable.....	4,619,802	—	—	4,619,802
Revenue bonds payable.....	—	4,337,755	—	4,337,755
Contracts and notes payable..	—	—	48,853	48,853
Total Liabilities.....	5,663,632	4,641,274	69,947	10,374,853
Fund Equity:				
Retained earnings:				
Reserved for regulatory requirements.....	100,000	416,893	—	516,893
Unreserved.....	1,494,256	44,594	393,377	1,932,227
Total Fund Equity.....	1,594,256	461,487	393,377	2,449,120
Total Liabilities and Fund Equity.....	\$ 7,257,888	\$ 5,102,761	\$ 463,324	\$ 12,823,973

Table 34**Combined Statement of Revenues, Expenses, and Changes in Retained Earnings****Component Units - Special Purpose Authorities**

Year Ended June 30, 1996 (Amounts in thousands)

	State Compensation Insurance	California Housing Finance Agency	Non-Major Component Units	Total
Operating Revenues:				
Earned premiums (net).....	\$ 1,077,384	\$ —	\$ —	\$ 1,077,384
Other revenue.....	—	366,085	110,161	476,246
Total Operating Revenues.....	1,077,384	366,085	110,161	1,553,630
Operating Expenses:				
Depreciation.....	7,641	600	3,311	11,552
Benefit payments.....	953,491	—	—	953,491
Interest expense.....	—	274,501	—	274,501
Amortization of deferred charges.....	—	2,238	—	2,238
Other operating expenses.....	175,441	40,821	120,024	336,286
Total Operating Expenses.....	1,136,573	318,160	123,335	1,578,068
Operating Income (Loss).....	(59,189)	47,925	(13,174)	(24,438)
Nonoperating Revenues (Expenses):				
Interest revenue.....	489,345	—	820	490,165
Dividends paid.....	(281,513)	—	—	(281,513)
Other nonoperating revenues (expenses).....	—	—	(6,236)	(6,236)
Net Nonoperating Revenues (Expenses).....	207,832	—	(5,416)	202,416
Net Income (Loss).....	148,643	47,925	(18,590)	177,978
Retained Earnings, July 1, 1995.....	1,445,613	413,562	411,967	2,271,142
Retained Earnings, June 30, 1996.....	\$ 1,594,256	\$ 461,487	\$ 393,377	\$ 2,449,120

Significant Accounting Policies: The SCIF prepares its financial statements in conformity with practices prescribed by the State's Department of Insurance, which is primarily in accordance with generally accepted accounting principles. There are, however, a few principal exceptions; policy acquisition costs, late premiums, and office furniture and equipment are charged off currently; premium income is recognized over the policy periods; reinsured contract amounts are presented net of reinsurance; and the amount, that is due from the primary government for claims received, is not recorded. The Board of Directors of the SCIF declares dividends payable to policy holders who meet the premium volume and loss experience criteria established by the Board. The dividends paid shown on the Statement of Revenues, Expenses, and Changes in Retained Earnings for Special Purpose Authorities are for those dividends paid to policy holders. The financial statements of the

SCIF, which are included as a component unit, are as of and for the year ended December 31, 1995.

The accounts of the remaining special purpose authorities are reported using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Fixed Assets—Property and Depreciation: Depreciation on buildings for the SCIF is computed on a straight-line basis over the estimated useful lives of the buildings (40 to 50 years). Data processing equipment owned by the SCIF is carried at cost less accumulated depreciation computed on a straight-line basis over the estimated useful lives of the equipment (three to five years).

Cash and Pooled Investments and Investments: The cash and pooled investments of the special purpose authorities are primarily invested by the State Treasurer as part of the State's pooled investment program. At June 30, 1996, the special purpose authorities cash and pooled investments were approximately 3% of the State's pooled investment portfolio described in Note 3. Additionally, state law, bond resolutions, and investment policy resolutions allow the authorities to invest in United States government securities, Canadian government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, and other investments.

All investments reported as of June 30, 1996 are categorized in three categories of credit risk:

1. Insured or registered, or securities held by the authority or its agent in the authority's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or by an agent in the authority's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the authority's name.

Table 35 presents the carrying value and market value of the investments of the special purpose authorities that were reported to the State on June 30, 1996.

Included in the investments of the special purpose authorities are the investments of the SCIF as of December 31, 1995. The SCIF represents 86% of the carrying value and 86% of the market value of the authorities' investments.

Table 35**Schedule of Investments - Special Purpose Authorities**

June 30, 1996 (Amounts in thousands)

Invested Funds Subject to Categorization	Category			Carrying Value	Market Value
	1	2	3		
Government Securities:					
U.S. and U.S. agency.....	\$ 3,677,075	\$ —	\$ —	\$ 3,677,075	\$ 4,043,186
Canadian government.....	39,642	—	—	39,642	43,987
State and municipal.....	25,067	—	—	25,067	25,262
Commercial paper.....	4,500	—	—	4,500	4,500
Corporate bonds.....	2,070,652	—	—	2,070,652	2,175,249
Investment agreements.....	—	308,262	—	308,262	308,262
Money market.....	187,745	—	4,098	191,843	191,843
Total Invested Funds Subject to Categorization.....	\$ 6,004,681	\$ 308,262	\$ 4,098	6,317,041	6,792,289
Separately Invested Funds Not Subject to Categorization					
Investment agreements.....				576,740	576,740
Total Investments.....				\$ 6,893,781	\$ 7,369,029

Due from the Primary Government: The Due from the Primary Government account balance reflects \$10 million that is due to the SCIF from the State's General Fund.

Restricted Assets: Cash and pooled investments of \$373 million and investments of \$963 million were restricted for debt service.

Fixed Assets: Table 36 presents property and data processing equipment for the authorities.

Table 36**Schedule of Fixed Assets - Special Purpose Authorities**

June 30, 1996 (Amounts in thousands)

Real estate:	
Office building.....	\$ 335,245
Land.....	37,119
Furniture and equipment.....	62,870
Construction in progress.....	1,133
Total Fixed Assets.....	436,367
Less: Accumulated depreciation.....	(98,858)
Net Fixed Assets.....	\$ 337,509

The schedule of fixed assets does not include certain unaudited fixed assets of the Non-Major Component Units totaling approximately \$194 million.

Revenue Bonds: Under state law, the CHFA may issue revenue bonds. The bonds issued by the CHFA allow the State to make loans to finance housing developments and to finance the acquisition of homes by low to moderate income families. When the housing development and home loans financed by the revenue bonds are

fully paid, the housing developments and homes become the property of private individuals or entities. Principal and interest on the revenue bonds issued by the CHFA are payable from its earnings.

Changes in Bond Indebtedness: Table 37 summarizes the changes in revenue bond debt of these authorities for the year ended June 30, 1996.

Table 37

Schedule of Changes in Revenue Bond Debt - CHFA

Year Ended June 30, 1996 (Amounts in thousands)

Balance, July 1, 1995.....	\$ 3,750,981
Additions.....	1,002,452
Deduction.....	(415,678)
Balance, June 30, 1996.....	\$ 4,337,755

Debt Service Requirements: Table 38 shows the debt service requirements for revenue bonds, excluding interest. Total interest payments for the year ended June 30, 1996, was \$253 million.

Table 38

Schedule of Debt Service Requirements - CHFA

Year Ending June 30 (Amounts in thousands)

1997.....	\$ 54,465
1998.....	67,645
1999.....	72,625
2000.....	78,106
2001.....	88,136
Thereafter.....	3,988,895
Total.....	\$ 4,349,872

Extinguishment of Debt: On May 8, 1996, the CHFA issued Home Mortgage Revenue Bonds 1996 Series A, of which a portion of the proceeds were put into an escrow account to redeem Home Mortgage Revenue Bonds 1986 Series A. The CHFA considered this debt refunding to be an in-substance defeasance and accordingly removed from the combined balance sheet the bonds payable as well as the assets required to effect the redemption. In accordance with GASB No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," the loss from the debt refunding was deferred and will be amortized over the remaining life of the prior bonds, which is shorter than the estimated life of the refunding bonds. At June 30, 1996, \$92 million of bonds were considered defeased. The loss from extinguishment of debt was \$3 million.

The refunding will decrease the debt service cash outflow for Single Family (Home Mortgage Revenue Bonds) by approximately \$15 million. The refunding may also provide for an economic gain (present value of the difference between new and old debt service requirements) for Single Family, which is estimated to be approximately \$1 million.

Commitments: As of June 30, 1996, the CHFA has outstanding commitments to provide \$6 million for loans under the Multi-Unit Rental Housing Revenue Bonds I Program, \$38 million for loans under the Multifamily Housing Revenue Bonds II Program, and \$43 million for loans under the Home Mortgage Revenue Bonds Program.

At December 31, 1995, SCIF was committed under the terms of renewable leases for 18 offices. Table 39 summarizes the minimum annual rental commitments.

Table 39

Schedule of Lease Commitments - SCIF

Year Ending December 31 (Amounts in thousands)

1996.....	\$ 16,632
1997.....	14,997
1998.....	9,713
1999.....	6,430
2000.....	4,454
Thereafter.....	4,716
Total.....	\$ 56,942

Subsequent Events: From July 1, 1996, to November 27, 1996, the CHFA issued approximately \$214 million in revenue bonds.

NOTE 27.

JOINT VENTURE

A joint venture is an entity that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. In such an arrangement, the participants retain an ongoing financial interest or an ongoing financial responsibility in the entity.

The **Capitol Area Development Authority (CADA)** was created in 1978 by the Joint Exercise of Powers Agreement (JPA) between the State of California and the city of Sacramento for the location of state buildings and other improvements in the central city. The CADA is a public entity separate from the State and the city, and is administered by a board of five members: two appointed by the State, two appointed by the city, and one appointed by the affirmative vote of at least three of the other four members of the board. The State designates the chairperson of the board. Although

the State does not have an equity interest in the CADA, it has an ongoing financial interest in the CADA. Based upon the appointment authority, the State has the ability to indirectly influence the CADA to undertake special projects for the citizenry of the State. The State subsidizes the CADA's operations by leasing the lands to the CADA without consideration; however, the State is not obligated to do so. Separately issued financial statements of the CADA can be obtained from its administrative office at 1530 Capitol Avenue, Sacramento, California 95814.

Combining Financial Statements and Schedules

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources, other than major capital projects or expendable trust funds, which are legally restricted to expenditures for specific purposes. A description of major special revenue funds follows:

Federal Fund accounts for the receipt and use of grants, entitlements, and shared revenues received from the federal government.

Transportation Construction Fund accounts for gasoline taxes, bond proceeds, and other revenues that are used for highway and passenger rail construction.

Transportation Safety Fund accounts for automobile registration fees and other revenues that are used for transportation safety programs.

Business and Professions Regulatory and Licensing Fund accounts for fees and other revenues charged for regulating and licensing specific industries, professions, and vocations.

Environmental and Natural Resources Fund accounts for fees, bond proceeds, and other revenues that are used for maintaining the State's natural resources and improving the environmental quality of the State's air, land, and water.

Financing to Local Governments Fund accounts for fees, bond proceeds, and other revenues that are used to finance the construction and maintenance of schools, parks, jails, and other local government assets.

Cigarette and Tobacco Tax Fund accounts for a surtax on cigarette and tobacco products that is used for various health programs.

Local Revenue Fund accounts for a 0.5% state sales tax that is dedicated to local governments for realigning costs from the State to local governments.

Unemployment Programs Fund accounts for transfers from the federal fund, appropriations from the State, penalties, and other revenues which are used to pay for the administration of the Unemployment Insurance Program and other related programs.

Financing to the Public Fund accounts for various fees, bond proceeds, appropriations from the State, and other revenues which provide financing to the public for emergencies, housing, and other programs.

Other Special Revenue Funds account for transactions related to resources obtained from all other specific revenue resources (other than for expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes.

Special Revenue Funds Combining Balance Sheet

June 30, 1996

(Amounts in thousands)

	Federal	Transportation Construction	Transportation Safety	Business and Professions Regulatory and Licensing	Environmental and Natural Resources
ASSETS:					
Cash and pooled investments.....	\$ 120,923	\$ 751,056	\$ 123,288	\$ 219,846	\$ 620,736
Receivables (net).....	25,012	66,432	12,184	26,723	110,983
Due from other funds.....	150,881	1,052,259	173,647	135,793	252,346
Due from other governments.....	4,420,775	13,487	2,851	19	14,121
Food stamps.....	504,262	—	—	—	—
Advances and loans receivable.....	22,909	109,215	—	7,012	1,051,001
Other assets.....	224,418	—	2,744	1	—
Total Assets.....	\$ 5,469,180	\$ 1,992,449	\$ 314,714	\$ 389,394	\$ 2,049,187
LIABILITIES:					
Accounts payable.....	\$ 507,138	\$ 108,616	\$ 34,870	\$ 31,851	\$ 43,960
Due to other funds.....	3,305,539	67,198	108,648	50,019	90,296
Due to component units.....	3,493	17,904	25,463	2,538	2,911
Due to other governments.....	1,095,307	11,248	4,064	4,824	37,071
Deferred revenue.....	504,262	—	—	—	—
Advances from other funds.....	—	—	—	5,557	25,711
Tax overpayments.....	—	—	—	—	—
Deposits.....	—	5,351	—	—	391
Advance collections.....	3,429	2,453	7,569	17,117	10,573
Other liabilities.....	113	36,196	5,187	2,184	1,073
Total Liabilities.....	5,419,281	248,966	185,801	114,090	211,986
FUND BALANCES:					
Reserved for:					
Encumbrances.....	1,422	794,954	68,149	42,303	241,784
Advances and loans.....	22,909	109,215	—	7,012	1,051,001
Continuing appropriations.....	—	2,097,311	2,580	26,621	194,461
Total Reserved.....	24,331	3,001,480	70,729	75,936	1,487,246
Unreserved:					
Undesignated (Deficit).....	25,568	(1,257,997)	58,184	199,368	349,955
Total Fund Balances.....	49,899	1,743,483	128,913	275,304	1,837,201
Total Liabilities and Fund Balances....	\$ 5,469,180	\$ 1,992,449	\$ 314,714	\$ 389,394	\$ 2,049,187

Financing to Local Governments	Cigarette and Tobacco Tax	Local Revenue	Unemployment Programs	Financing to the Public	Other Special Revenue	Total
\$ 299,591	\$ 341,439	\$ 57,500	\$ 169,778	\$ 124,779	\$ 492,857	\$ 3,321,793
17	2,810	1,672	26,920	6,272	73,817	352,842
13,169	87,113	302,270	405,143	44,738	198,013	2,815,372
8,742	—	—	2,303	—	44,812	4,507,110
—	—	—	—	—	—	504,262
1,490	—	—	—	15,719	93,324	1,300,670
—	—	—	—	—	1	227,164
\$ 323,009	\$ 431,362	\$ 361,442	\$ 604,144	\$ 191,508	\$ 902,824	\$ 13,029,213
\$ 19,323	\$ 27,042	\$ —	\$ 103,799	\$ 175	\$ 79,523	\$ 956,297
5,455	122,163	27,934	36,267	1,129	346,773	4,161,421
—	27,966	—	5,371	—	309	85,955
17,291	20,301	325,233	—	—	6,318	1,521,657
—	—	—	—	—	—	504,262
—	—	—	—	—	11,396	42,664
—	—	—	5,818	—	—	5,818
—	—	—	—	—	7,616	13,358
—	312	5,074	—	—	40,194	86,721
—	—	—	907	21	192	45,873
42,069	197,784	358,241	152,162	1,325	492,321	7,424,026
17,471	15,817	—	401,718	14	39,486	1,623,118
1,490	—	—	—	15,719	93,324	1,300,670
727,224	5,692	—	8,330	153,452	17,900	3,233,571
746,185	21,509	—	410,048	169,185	150,710	6,157,359
(465,245)	212,069	3,201	41,934	20,998	259,793	(552,172)
280,940	233,578	3,201	451,982	190,183	410,503	5,605,187
\$ 323,009	\$ 431,362	\$ 361,442	\$ 604,144	\$ 191,508	\$ 902,824	\$ 13,029,213

Special Revenue Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 1996

(Amounts in thousands)

	Federal	Transportation Construction	Transportation Safety	Business and Professions Regulatory Licensing	Environmental and Natural Resources
REVENUES:					
Taxes.....	\$ —	\$ 1,856,595	\$ —	\$ 42,716	\$ 98,242
Intergovernmental.....	24,335,580	—	—	—	2,182
Licenses and permits	—	615,263	1,111,526	99,361	112,665
Natural resources	—	—	—	—	53
Charges for services.....	—	1,894	65,779	2,719	83,007
Fees	—	—	15,059	396,000	652,191
Penalties	15,388	—	35,150	1,001	5,025
Interest	1	36,405	6,848	11,033	44,610
Other	—	76,275	3,140	15,406	44,019
Total Revenues.....	24,350,969	2,586,432	1,237,502	568,236	1,041,994
EXPENDITURES:					
Current:					
General government	628,507	11,239	20,298	280,970	9,904
Education	2,682,748	—	949	12,913	797
Health and welfare	17,296,552	—	1,665	13,481	27,770
Resources	119,887	201	104,916	162	1,010,897
State and consumer services	4,695	17	9,238	229,337	1,564
Business and transportation	2,179,259	1,995,803	1,010,825	89,454	216,283
Correctional programs	1,642	—	—	—	—
Property tax relief.....	—	—	—	—	3,000
Capital outlay.....	—	29,097	—	—	9,905
Debt service:					
Principal retirement	—	—	—	—	5,064
Interest and fiscal charges	—	1,506	—	—	24,913
Total Expenditures.....	22,913,290	2,037,863	1,147,891	626,317	1,310,097
Excess (Deficiency) of Revenues					
Over (Under) Expenditures.....	1,437,679	548,569	89,611	(58,081)	(268,103)
OTHER FINANCING SOURCES (USES):					
Proceeds from general obligation bonds and commercial paper.....	—	78,000	—	—	213,513
Proceeds from refunding bonds	—	—	—	—	—
Operating transfers in	—	36,195	3,810	128,578	220,812
Operating transfers out	(1,628,292)	(128,557)	(156,213)	(3,699)	(84,127)
Transfers out - component units.....	—	(956)	—	—	—
Payment to refunding bond escrow agent	—	—	—	—	—
Net Other Financing Sources (Uses).....	(1,628,292)	(15,318)	(152,403)	124,879	350,198
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....	(190,613)	533,251	(62,792)	66,798	82,095
Fund Balances, July 1, 1995.....	240,512	1,210,232	191,705	208,506	1,755,106
Fund Balances, June 30, 1996.....	\$ 49,899	\$ 1,743,483	\$ 128,913	\$ 275,304	\$ 1,837,201

Financing to Local Governments	Cigarette and Tobacco Tax	Local Revenue	Unemployment Programs	Financing to the Public	Other Special Revenue	Total
\$ 17,203	\$ 455,575	\$ 1,606,511	\$ 62,519	\$ 155	\$ 7,686	\$ 4,147,202
—	—	—	—	—	—	24,337,762
2,024	—	822,521	—	—	65,051	2,828,411
—	—	—	—	—	—	53
841	—	—	—	—	97,725	251,965
—	—	—	—	—	171,213	1,234,463
15	—	—	60,355	—	130,499	247,433
5,979	16,122	6,536	8,922	2,526	11,369	150,351
12,139	43	—	2,057	2,488	719,652	875,219
38,201	471,740	2,435,568	133,853	5,169	1,203,195	34,072,859
1,201	359	398	3	398	636,490	1,589,767
328,286	16,807	—	—	—	36,746	3,079,246
—	279,913	2,443,856	1,169,017	—	684,170	21,916,424
46,168	21,002	—	—	—	11,352	1,314,585
(795)	—	—	—	—	86,065	330,121
375	—	—	—	6,341	60,986	5,559,326
63,327	—	—	—	—	10,758	75,727
—	—	—	—	—	—	3,000
5,931	—	—	—	—	—	44,933
—	—	—	—	—	—	5,064
2,834	—	—	—	—	—	29,253
447,327	318,081	2,444,254	1,169,020	6,739	1,526,567	33,947,446
(409,126)	153,659	(8,686)	(1,035,167)	(1,570)	(323,372)	125,413
64,001	—	—	—	—	—	355,514
113,585	—	—	—	—	—	113,585
16,689	80,222	1,796	1,093,297	14,980	316,725	1,913,104
—	(148,179)	(1,806)	—	(36,804)	(52,165)	(2,239,842)
—	(18,180)	—	—	—	—	(19,136)
(113,585)	—	—	—	—	—	(113,585)
80,690	(86,137)	(10)	1,093,297	(21,824)	264,560	9,640
(328,436)	67,522	(8,696)	58,130	(23,394)	(58,812)	135,053
609,376	166,056	11,897	393,852	213,577	469,315	5,470,134
\$ 280,940	\$ 233,578	\$ 3,201	\$ 451,982	\$ 190,183	\$ 410,503	\$ 5,605,187

Special Revenue Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Budgetary Basis - Budget and Actual

Year Ended June 30, 1996

(Amounts in thousands)

	Federal		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES:			
Taxes.....	—	\$ —	—
Intergovernmental.....	—	21,659,268	—
Licenses and permits	—	—	—
Natural resources	—	—	—
Charges for services.....	—	—	—
Fees.....	—	—	—
Penalties.....	—	15,994	—
Interest.....	—	1	—
Other.....	—	—	—
Total Revenues.....	—	21,675,263	—
EXPENDITURES:			
Current:			
General government.....	\$ 652,131	625,026	\$ 27,105
Education.....	2,593,640	2,543,686	49,954
Health and welfare.....	16,094,165	14,657,658	1,436,507
Resources.....	151,279	119,999	31,280
State and consumer services.....	4,695	4,695	—
Business and transportation.....	2,160,860	2,124,046	36,814
Correctional programs.....	3,097	1,642	1,455
Property tax relief.....	—	—	—
Capital outlay.....	—	—	—
Debt service:			
Principal retirement.....	9,751	9,751	—
Interest and fiscal charges.....	—	—	—
Total Expenditures.....	\$ 21,669,618	20,086,503	\$ 1,583,115
OTHER FINANCING SOURCES (USES):			
Operating transfers in.....	—	3,125,079	—
Operating transfers out.....	—	(4,706,635)	—
Bonds authorized.....	—	—	—
Net Other Financing Sources (Uses).....	—	(1,581,556)	—
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....			
		7,204	—
Fund Balances, July 1, 1995.....	—	21,857	—
Fund Balances, June 30, 1996.....	—	\$ 29,061	—

Transportation Construction			Transportation Safety			Business and Professions Regulatory and Licensing		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
—	\$ —	—	—	\$ —	—	—	\$ 22,120	—
—	—	—	—	—	—	—	—	—
—	615,263	—	—	1,111,526	—	—	99,361	—
—	—	—	—	—	—	—	—	—
—	1,894	—	—	65,779	—	—	2,719	—
—	—	—	—	15,059	—	—	396,000	—
—	—	—	—	35,150	—	—	1,001	—
—	36,405	—	—	6,848	—	—	11,033	—
—	39,575	—	—	3,686	—	—	15,406	—
—	693,137	—	—	1,238,048	—	—	547,640	—
\$ 11,239	11,239	\$ —	\$ 20,403	20,298	\$ 105	\$ 292,543	281,121	\$ 11,422
956	956	—	944	949	(5)	13,235	12,900	335
—	—	—	2,315	1,635	680	14,399	13,481	918
201	201	—	102,631	104,798	(2,167)	174	162	12
18	17	1	9,184	9,238	(54)	265,802	229,306	36,496
2,668,988	2,082,310	586,678	1,078,079	1,045,975	32,104	106,565	89,358	17,207
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
29,097	29,097	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
500	312	188	—	—	—	—	—	—
\$ 2,710,999	2,124,132	\$ 586,867	\$ 1,213,556	1,182,893	\$ 30,663	\$ 692,718	626,328	\$ 66,390
—	1,923,720	—	—	41,576	—	—	127,845	—
—	(161,969)	—	—	(159,487)	—	—	(10,399)	—
—	—	—	—	—	—	—	—	—
—	1,761,751	—	—	(117,911)	—	—	117,446	—
—	330,756	—	—	(62,756)	—	—	38,758	—
—	1,465,488	—	—	217,132	—	—	211,056	—
—	\$ 1,796,244	—	—	\$ 154,376	—	—	\$ 249,814	—

(Continued)

Special Revenue Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Budgetary Basis - Budget and Actual

Year Ended June 30, 1996

(Amounts in thousands)

	Environmental and Natural Resources		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes.....	—	\$ 33,280	—
Intergovernmental.....	—	—	—
Licenses and permits	—	112,665	—
Natural resources	—	53	—
Charges for services.....	—	83,007	—
Fees.....	—	651,791	—
Penalties.....	—	5,025	—
Interest.....	—	44,578	—
Other.....	—	66,079	—
Total Revenues.....	—	996,478	—
EXPENDITURES:			
Current:			
General government.....	\$ 9,872	9,872	\$ —
Education.....	800	797	3
Health and welfare.....	29,040	27,770	1,270
Resources.....	1,258,712	1,118,650	140,062
State and consumer services.....	1,748	1,564	184
Business and transportation.....	217,050	212,454	4,596
Correctional programs.....	—	—	—
Property tax relief.....	15,800	3,000	12,800
Capital outlay.....	14,833	9,905	4,928
Debt service:			
Principal retirement.....	158,781	158,781	—
Interest and fiscal charges.....	—	—	—
Total Expenditures.....	\$ 1,706,636	1,542,793	\$ 163,843
OTHER FINANCING SOURCES (USES):			
Operating transfers in.....	—	398,598	—
Operating transfers out.....	—	(143,976)	—
Bonds authorized.....	—	—	—
Net Other Financing Sources (Uses).....	—	254,622	—
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....	—	(291,693)	—
Fund Balances, July 1, 1995.....	—	2,396,533	—
Fund Balances, June 30, 1996.....	—	\$ 2,104,840	—

Financing to Local Governments			Cigarette and Tobacco Tax			Local Revenue		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
—	\$ —	—	—	\$ 34,043	—	—	\$ —	—
—	—	—	—	—	—	—	—	—
—	2,024	—	—	—	—	—	822,521	—
—	—	—	—	—	—	—	—	—
—	841	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	15	—	—	—	—	—	—	—
—	5,979	—	—	16,122	—	—	6,536	—
—	2,214	—	—	43	—	—	—	—
—	11,073	—	—	50,208	—	—	829,057	—
\$ 1,201	1,201	\$ —	\$ 359	359	\$ —	\$ 398	398	\$ —
321,874	330,977	(9,103)	35,588	34,987	601	—	—	—
—	—	—	304,429	279,913	24,516	2,443,856	2,443,856	—
36,514	35,806	708	21,385	21,002	383	—	—	—
274	(795)	1,069	—	—	—	—	—	—
409	375	34	—	—	—	—	—	—
64,163	63,327	836	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
8,039	5,931	2,108	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
\$ 432,474	436,822	\$ (4,348)	\$ 361,761	336,261	\$ 25,500	\$ 2,444,254	2,444,254	\$ —
—	48,882	—	—	501,754	—	—	5,862,444	—
—	—	—	—	(148,179)	—	—	(4,240,123)	—
—	2,025,000	—	—	—	—	—	—	—
—	2,073,882	—	—	353,575	—	—	1,622,321	—
—	1,648,133	—	—	67,522	—	—	7,124	—
—	1,008,410	—	—	166,056	—	—	125	—
—	\$ 2,656,543	—	—	\$ 233,578	—	—	\$ 7,249	—

(Continued)

Special Revenue Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Budgetary Basis - Budget and Actual

Year Ended June 30, 1996

(Amounts in thousands)

	Unemployment Programs		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes.....	—	\$ 62,519	—
Intergovernmental.....	—	—	—
Licenses and permits	—	—	—
Natural resources	—	—	—
Charges for services.....	—	—	—
Fees.....	—	—	—
Penalties.....	—	60,355	—
Interest.....	—	8,922	—
Other.....	—	2,057	—
Total Revenues.....	—	133,853	—
EXPENDITURES:			
Current:			
General government.....	\$ 3	3	\$ —
Education.....	—	—	—
Health and welfare.....	1,246,351	1,194,447	51,904
Resources.....	—	—	—
State and consumer services.....	—	—	—
Business and transportation.....	—	—	—
Correctional programs.....	—	—	—
Property tax relief.....	—	—	—
Capital outlay.....	—	—	—
Debt service:			
Principal retirement.....	—	—	—
Interest and fiscal charges.....	—	—	—
Total Expenditures.....	\$ 1,246,354	1,194,450	\$ 51,904
OTHER FINANCING SOURCES (USES):			
Operating transfers in.....	—	1,082,566	—
Operating transfers out.....	—	—	—
Bonds Authorized.....	—	—	—
Net Other Financing Sources (Uses).....	—	1,082,566	—
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....	—	21,969	—
Fund Balances, July 1, 1995.....	—	17,772	—
Fund Balances, June 30, 1996.....	—	\$ 39,741	—

Financing to the Public			Other Special Revenue			Total		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
—	\$ —	—	—	\$ 1,379	—	—	\$ 153,341	—
—	—	—	—	—	—	—	21,659,268	—
—	—	—	—	65,051	—	—	2,828,411	—
—	—	—	—	—	—	—	53	—
—	—	—	—	97,725	—	—	251,965	—
—	—	—	—	171,197	—	—	1,234,047	—
—	—	—	—	130,499	—	—	248,039	—
—	2,526	—	—	11,369	—	—	150,319	—
—	2,593	—	—	975,926	—	—	1,107,579	—
—	5,119	—	—	1,453,146	—	—	27,633,022	—
\$ 397	398	\$ (1)	\$ 652,146	631,311	\$ 20,835	\$ 1,640,692	1,581,226	\$ 59,466
—	—	—	38,438	36,718	1,720	3,005,475	2,961,970	43,505
—	—	—	691,957	684,407	7,550	20,826,512	19,303,167	1,523,345
—	—	—	18,845	11,347	7,498	1,589,741	1,411,965	177,776
—	—	—	89,706	86,004	3,702	371,427	330,029	41,398
32,140	32,139	1	81,299	54,843	26,456	6,345,390	5,641,500	703,890
—	—	—	11,307	10,758	549	78,567	75,727	2,840
—	—	—	—	—	—	15,800	3,000	12,800
—	—	—	—	—	—	51,969	44,933	7,036
—	—	—	(379)	(379)	—	168,153	168,153	—
—	—	—	100,062	100,062	—	100,562	100,374	188
\$ 32,537	32,537	\$ —	\$ 1,683,381	1,615,071	\$ 68,310	\$ 34,194,288	31,622,044	\$ 2,572,244
—	10,619	—	—	354,834	—	—	13,477,917	—
—	(12,149)	—	—	(82,250)	—	—	(9,665,167)	—
—	—	—	—	—	—	—	2,025,000	—
—	(1,530)	—	—	272,584	—	—	5,837,750	—
—	(28,948)	—	—	110,659	—	—	1,848,728	—
—	203,412	—	—	521,723	—	—	6,229,564	—
—	\$ 174,464	—	—	\$ 632,382	—	—	\$ 8,078,292	—

(Concluded)

Capital Projects Funds

Capital Projects Funds are used to account for the financial resources used for the acquisition or construction of major state-owned capital facilities and for capital assistance grants to local governments and public authorities. A brief description of major capital project funds follows:

Special Account for Capital Outlay Fund accounts for state land royalties that are used for constructing or maintaining publicly owned structures.

Prison Construction Fund accounts for bond proceeds that are used to construct state prisons.

Higher Education Construction Fund accounts for state land royalties and bond proceeds used for the construction of state colleges and universities.

Natural Resources Acquisition and Enhancement Fund accounts for bond proceeds and various revenues that are used to acquire or improve State parks, beaches, and other recreational areas.

Building Authorities are blended component units which are created by joint powers agreements between the State and various cities for the purpose of financing the construction of state buildings.

Other Capital Projects Funds account for transactions related to resources obtained and used to acquire or construct other major capital facilities.

Capital Projects Funds Combining Balance Sheet

June 30, 1996

(Amounts in thousands)

	Special Account for Capital Outlay	Prison Construction
ASSETS:		
Cash and pooled investments.....	\$ 46	\$ 30,898
Investments.....	—	—
Receivables (net).....	1,221	—
Due from other funds.....	8,049	145
Due from other governments.....	—	—
Other assets.....	—	—
Total Assets.....	\$ 9,316	\$ 31,043
LIABILITIES:		
Accounts payable.....	\$ 427	\$ 1,621
Due to other funds.....	7,070	2,922
Due to other governments.....	—	—
Advances from other funds.....	—	—
Advance Collection.....	—	—
Interest payable.....	—	—
Total Liabilities.....	7,497	4,543
FUND BALANCES:		
Reserved for:		
Encumbrances.....	1,819	37,452
Continuing appropriations.....	2,254	2,698
Total Reserved.....	4,073	40,150
Unreserved:		
Undesignated (Deficit).....	(2,254)	(13,650)
Total Fund Balances.....	1,819	26,500
Total Liabilities and Fund Balances.....	\$ 9,316	\$ 31,043

Higher Education Construction	Natural Resources Acquisition and Enhancement	Building Authorities	Other Capital Projects	Total
\$ 4,326	\$ 12,579	\$ —	\$ 8,396	\$ 56,245
—	—	2,955	—	2,955
—	—	57	—	1,278
574	25,780	37,987	7	72,542
—	—	13	—	13
—	—	148	—	148
\$ 4,900	\$ 38,359	\$ 41,160	\$ 8,403	\$ 133,181
\$ 13,955	\$ 3,101	\$ 1,608	\$ (403)	\$ 20,309
1,213	1,298	22,852	198	35,553
1,598	3,895	—	—	5,493
—	—	—	1,138	1,138
—	—	196	—	196
—	—	19,882	—	19,882
16,766	8,294	44,538	933	82,571
24,307	16,760	—	35,736	116,074
773	22,717	—	—	28,442
25,080	39,477	—	35,736	144,516
(36,946)	(9,412)	(3,378)	(28,266)	(93,906)
(11,866)	30,065	(3,378)	7,470	50,610
\$ 4,900	\$ 38,359	\$ 41,160	\$ 8,403	\$ 133,181

Capital Projects Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 1996

(Amounts in thousands)

	Special Account for Capital Outlay	Prison Construction
REVENUES:		
Interest	\$ —	\$ 8
Other	—	—
Total Revenues.....	—	8
EXPENDITURES:		
Current:		
General government.....	—	—
Education	—	—
Resources	465	—
Business and transportation.....	—	—
Capital outlay.....	5,639	41,638
Debt service:		
Principal retirement.....	—	—
Interest and fiscal charges	—	—
Total Expenditures.....	6,104	41,638
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	(6,104)	(41,630)
OTHER FINANCING SOURCES (USES):		
Proceeds from general obligation bonds and commercial paper.....	—	28,000
Proceeds from refunding bonds	—	31,315
Operating transfers in	—	1,777
Operating transfers out	(5,934)	(1,786)
Transfer out – component units.....	—	—
Payment to refunding bond escrow agent.....	—	(31,315)
Net Other Financing Sources (Uses).....	(5,934)	27,991
Excess of Revenues and Other Financing Sources Over (Under)		
Expenditures and Other Financing Uses.....	(12,038)	(13,639)
Fund Balances, July 1, 1995.....	13,857	40,139
Fund Balances, June 30, 1996.....	\$ 1,819	\$ 26,500

Higher Education Construction	Natural Resources Acquisition and Enhancement	Building Authorities	Other Capital Projects	Total
\$ 1,078	\$ 285	\$ 2,644	\$ —	\$ 4,015
—	2,253	410	103	2,766
1,078	2,538	3,054	103	6,781
—	—	13	—	13
1,962	—	1,585	—	3,547
—	6,541	—	—	7,006
—	—	26	—	26
146,293	21,947	39,620	20,574	275,711
—	—	20,090	—	20,090
3,008	29	18,944	—	21,981
151,263	28,517	80,278	20,574	328,374
(150,185)	(25,979)	(77,224)	(20,471)	(321,593)
103,984	1,000	—	22,000	154,984
95,910	—	79,666	—	206,891
418	24,172	24,134	—	50,501
(25)	(3,221)	—	(75)	(11,041)
(51,971)	—	—	—	(51,971)
(95,910)	—	(79,666)	—	(206,891)
52,406	21,951	24,134	21,925	142,473
(97,779)	(4,028)	(53,090)	1,454	(179,120)
85,913	34,093	49,712	6,016	229,730
\$ (11,866)	\$ 30,065	\$ (3,378)	\$ 7,470	\$ 50,610

Capital Projects Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Budgetary Basis - Budget and Actual

Year Ended June 30, 1996

(Amounts in thousands)

	Special Account for Capital Outlay		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Interest.....	—	\$ —	—
Other.....	—	—	—
Total Revenues.....	—	—	—
EXPENDITURES:			
Current:			
Education.....	\$ —	—	\$ —
Resources.....	2,014	465	1,549
State and consumer services.....	—	—	—
Capital outlay.....	12,461	5,639	6,822
Debt service:			
Principal retirement.....	—	—	—
Interest and fiscal charges.....	—	—	—
Total Expenditures.....	\$ 14,475	6,104	\$ 8,371
OTHER FINANCING SOURCES (USES):			
Operating transfers in.....	—	—	—
Operating transfers out.....	—	(5,934)	—
Bonds Authorized.....	—	—	—
Net Other Financing Sources (Uses).....	—	(5,934)	—
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....	—	(12,038)	—
Fund Balances, July 1, 1995.....	—	13,857	—
Fund Balances, June 30, 1996.....	—	\$ 1,819	—

Prison Construction			Higher Education Construction			Natural Resources Acquisition and Enhancement		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
—	\$ 8	—	—	\$ 1,078	—	—	\$ 285	—
—	—	—	—	—	—	—	2,253	—
—	8	—	—	1,078	—	—	2,538	—
\$ —	—	\$ —	\$ 8,404	4,692	\$ 3,712	\$ —	—	\$ —
—	—	—	—	—	—	12,614	6,540	6,074
—	—	—	—	—	—	—	—	—
55,610	41,638	13,972	193,012	198,209	(5,197)	24,953	21,976	2,977
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
\$ 55,610	41,638	\$ 13,972	\$ 201,416	202,901	\$ (1,485)	\$ 37,567	28,516	\$ 9,051
—	1,777	—	—	9,508	—	—	64,422	—
—	(1,786)	—	—	(9,448)	—	—	(43,471)	—
—	—	—	—	975,000	—	—	—	—
—	(9)	—	—	975,060	—	—	20,951	—
—	(41,639)	—	—	773,237	—	—	(5,027)	—
—	139,139	—	—	395,113	—	—	52,964	—
—	\$ 97,500	—	—	\$ 1,168,350	—	—	\$ 47,937	—

(Continued)

Capital Projects Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Budgetary Basis - Budget and Actual

Year Ended June 30, 1996

(Amounts in thousands)

	Building Authorities		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Interest.....	—	\$ —	—
Other.....	—	46,870	—
Total Revenues.....	—	46,870	—
EXPENDITURES:			
Current:			
Education.....	\$ —	—	\$ —
Resources.....	—	—	—
State and consumer services.....	—	—	—
Capital outlay.....	13,691	13,691	—
Debt service:			
Principal retirement.....	17,795	17,795	—
Interest and fiscal charges.....	4,604	4,604	—
Total Expenditures.....	\$ 36,090	36,090	\$ —
OTHER FINANCING SOURCES (USES):			
Operating transfers in.....	—	79,266	—
Operating transfers out.....	—	(76,428)	—
Bonds authorized.....	—	—	—
Net Other Financing Sources (Uses).....	—	2,838	—
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	—	13,618	—
Fund Balances, July 1, 1995.....	—	39,644	—
Fund Balances, June 30, 1996.....	—	\$ 53,262	—

Other Capital Projects			Total		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
—	\$ —	—	—	\$ 1,371	—
—	103	—	—	49,226	—
—	103	—	—	50,597	—
\$ —	—	\$ —	\$ 8,404	4,692	\$ 3,712
—	—	—	14,628	7,005	7,623
46,526	16,249	30,277	46,526	16,249	30,277
32,150	31,301	849	331,877	312,454	19,423
—	—	—	17,795	17,795	—
—	—	—	4,604	4,604	—
\$ 78,676	47,550	\$ 31,126	\$ 423,834	362,799	\$ 61,035
—	—	—	—	154,973	—
—	(14)	—	—	(137,081)	—
—	2,000,000	—	—	2,975,000	—
—	1,999,986	—	—	2,992,892	—
—	1,952,539	—	—	2,680,690	—
—	270,359	—	—	911,076	—
—	\$ 2,222,898	—	—	\$ 3,591,766	—

(Concluded)

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. A brief description of major enterprise funds follows:

Housing Loan Fund accounts for contracts for the sale of properties to California veterans and to California National Guard members and program loans to finance the housing needs of persons and families of low and moderate income.

Water Resources Fund accounts for charges to local water districts and the sale of excess power to public utilities.

School Building Aid Fund accounts for loans to school districts for acquisition, construction, or rehabilitation of classroom facilities and for income from the rental of portable classrooms to school districts.

Toll Facilities Fund accounts for fees collected for crossing state toll bridges.

California State University Fund accounts for charges to students for housing and parking and student fees for campus unions, health centers, and self-supporting educational programs.

Leasing of Public Assets Fund accounts for rental charges from the lease of public assets.

State Lottery Fund accounts for the sale of lottery tickets.

Harbors and Watercraft Fund accounts for the activities of the Department of Boating and Waterways, which includes loans, grants, and subventions to local governments for harbor improvements and boating safety and enforcement programs.

Health Facilities Construction Loan Insurance Fund accounts for an insurance program for health facility construction loans.

Other Enterprise Funds account for all other goods or services provided to the general public on a continuing basis when all or most of the cost involved is to be financed by user charges, or when periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Enterprise Funds Combining Balance Sheet

June 30, 1996

(Amounts in thousands)

	Housing Loan	Water Resources	School Building Aid	Toll Facilities
ASSETS:				
Cash and pooled investments.....	\$ 313,926	\$ 348,112	\$ 77,715	\$ 656,306
Investments.....	1,015,488	79,337	—	3,468
Receivables (net).....	24,598	7,202	—	2,380
Due from other funds.....	4,499	72,215	—	12,506
Due from other governments.....	—	53,833	4,128	—
Prepaid items.....	—	10,685	—	14,000
Inventory, at cost.....	—	16,958	—	—
Net investment in direct financing leases.....	—	—	—	—
Advances and loans receivable.....	2,354,849	79,843	191,106	6,234
Deferred charges.....	6,267	993,977	—	2,875
Fixed assets.....	8,437	3,295,791	76,039	1,004,731
Other assets.....	58,663	—	—	239
Total Assets.....	\$ 3,786,727	\$ 4,957,953	\$ 348,988	\$ 1,702,739
LIABILITIES:				
Accounts payable.....	\$ 251	\$ 67,987	\$ —	\$ 55
Due to other funds.....	3,094	35,891	61,201	14,865
Due to component units.....	—	—	1,556	—
Due to other governments.....	—	41,381	—	735
Advances from other funds.....	134,260	50,312	—	6,160
Benefits payable.....	82,840	—	—	—
Deposits.....	—	—	—	1,270
Contracts and notes payable.....	—	—	—	—
Lottery prizes and annuities.....	—	—	—	—
Compensated absences payable.....	—	17,219	—	—
Commercial paper.....	—	21,000	—	—
Capital lease obligation.....	—	—	—	—
Advance collections.....	—	282,198	—	—
General obligation bonds payable.....	2,814,595	1,095,590	18,000	—
Revenue bonds payable.....	374,975	2,225,329	—	56,850
Interest payable.....	86,783	26,351	—	470
Other liabilities.....	—	2,325	—	16
Total Liabilities.....	3,496,798	3,865,583	80,757	80,421
FUND EQUITY:				
Contributed capital.....	—	178,031	—	—
Retained earnings:				
Reserved for regulatory requirements.....	—	—	—	—
Unreserved.....	289,929	914,339	268,231	1,622,318
Total Retained Earnings.....	289,929	914,339	268,231	1,622,318
Total Fund Equity.....	289,929	1,092,370	268,231	1,622,318
Total Liabilities and Fund Equity.....	\$ 3,786,727	\$ 4,957,953	\$ 348,988	\$ 1,702,739

California State University	Leasing of Public Assets	State Lottery	Harbors and Watercraft	Health Facilities Construction Loan Insurance	Other Enterprise	Total
\$ 360,644	\$ 920,120	\$ 180,189	\$ 74,920	\$ 141,586	\$ 74,841	\$ 3,148,359
—	137,656	2,445,619	—	—	570	3,682,138
11,532	—	47,468	231	139	4,702	98,252
11,105	119,198	8,015	2,455	3,909	7,745	241,647
71	—	—	6,665	—	1,722	66,419
29	—	894	163	—	247	26,018
—	—	2,509	—	—	3,004	22,471
—	4,153,448	—	—	—	—	4,153,448
2,663	—	—	195,974	—	27,911	2,858,580
—	62,359	4,115	—	—	—	1,069,593
670,230	310,578	65,951	849	8	27,806	5,460,420
30	—	—	395	—	—	59,327
\$ 1,056,304	\$ 5,703,359	\$ 2,754,760	\$ 281,652	\$ 145,642	\$ 148,548	\$ 20,886,672
\$ 16,262	\$ 75,933	\$ 30,043	\$ 8,817	\$ 1,027	\$ 16,718	\$ 217,093
9,855	16,335	189,700	3,449	124	1,384	335,898
—	1,023	—	—	—	—	2,579
—	1,216	157	62,788	71	57	106,405
2,663	—	—	—	—	6,382	199,777
—	—	—	—	—	219	83,059
741	—	1,042	395	—	2,990	6,438
—	—	—	—	—	653	653
—	—	2,526,650	—	—	—	2,526,650
9,849	—	4,315	—	182	883	32,448
—	—	—	—	—	—	21,000
—	—	—	—	—	313	313
40,708	20,681	2,853	118	15	1,284	347,857
—	—	—	—	—	54,100	3,982,285
330,308	5,431,442	—	—	—	—	8,418,904
3,616	57,822	—	—	—	29	175,071
2,419	—	—	26	—	9,967	14,753
416,421	5,604,452	2,754,760	75,593	1,419	94,979	16,471,183
17,202	—	—	—	—	21,014	216,247
142,492	—	—	—	—	—	142,492
480,189	98,907	—	206,059	144,223	32,555	4,056,750
622,681	98,907	—	206,059	144,223	32,555	4,199,242
639,883	98,907	—	206,059	144,223	53,569	4,415,489
\$ 1,056,304	\$ 5,703,359	\$ 2,754,760	\$ 281,652	\$ 145,642	\$ 148,548	\$ 20,886,672

Enterprise Funds

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings

Year Ended June 30, 1996

(Amounts in thousands)

	Housing Loan	Water Resources	School Building Aid	Toll Facilities
OPERATING REVENUES:				
Lottery ticket sales.....	\$ —	\$ —	\$ —	\$ —
Services and sales.....	8,980	480,720	—	137,600
Earned premiums (net).....	21,159	—	—	—
Investment and interest.....	261,795	—	—	—
Rent.....	—	—	25,676	3,100
Other.....	343	—	—	527
Total Operating Revenues.....	292,277	480,720	25,676	141,227
OPERATING EXPENSES:				
Lottery prizes.....	—	—	—	—
Personal services.....	10,929	103,653	1,094	24,153
Supplies.....	—	—	—	262
Services and charges.....	11,228	166,429	40,534	12,577
Depreciation.....	849	57,902	3,720	—
Benefit payments.....	29,372	—	—	—
Interest expense.....	247,991	—	—	—
Amortization (recovery) of deferred charges.....	—	(35,490)	—	430
Total Operating Expenses.....	300,369	292,494	45,348	37,422
Operating Income (Loss).....	(8,092)	188,226	(19,672)	103,805
NONOPERATING REVENUES (EXPENSES):				
Grants received.....	—	—	—	—
Grants provided.....	—	—	—	(13,276)
Interest revenue.....	11,144	22,943	23,219	35,359
Interest expense and fiscal charges.....	(161)	(161,939)	(1,917)	(2,412)
Lottery payments for education.....	—	—	—	—
Other.....	(5,510)	(4,753)	—	—
Payment to refunded bond escrow agent.....	—	—	—	—
Total Nonoperating Revenues (Expenses).....	5,473	(143,749)	21,302	19,671
Income (Loss) Before Operating Transfers.....	(2,619)	44,477	1,630	123,476
OPERATING TRANSFERS:				
Operating transfers in.....	11,144	—	—	—
Operating transfers out.....	(11,144)	—	(20,477)	(12,051)
Total Operating Transfers.....	—	—	(20,477)	(12,051)
Net Income (Loss).....	(2,619)	44,477	(18,847)	111,425
Retained Earnings, July 1, 1995.....	292,548	869,862	287,078	1,510,893
Retained Earnings, June 30, 1996.....	\$ 289,929	\$ 914,339	\$ 268,231	\$ 1,622,318

California State University	Leasing of Public Assets	State Lottery	Harbors and Watercraft	Health Facilities Construction Loan Insurance	Other Enterprise Funds	Total
\$ —	\$ —	\$ 2,292,325	\$ —	\$ —	\$ —	\$ 2,292,325
240,465	—	—	14,316	16,935	72,490	971,506
—	—	—	—	—	—	21,159
(2)	39,433	—	—	1	994	302,221
—	291,040	—	—	—	—	319,816
226	63	—	—	—	950	2,109
240,689	330,536	2,292,325	14,316	16,936	74,434	3,909,136
—	—	1,128,453	—	—	—	1,128,453
79,344	—	46,831	3,354	182	8,589	278,129
—	—	75,894	—	—	—	76,156
99,050	22,772	230,418	32,376	14,906	61,008	691,298
—	—	10,489	—	—	2,226	75,186
—	—	—	—	—	—	29,372
—	258,643	—	—	—	4,540	511,174
—	15,279	1,803	—	—	—	(17,978)
178,394	296,694	1,493,888	35,730	15,088	76,363	2,771,790
62,295	33,842	798,437	(21,414)	1,848	(1,929)	1,137,346
481	—	—	—	—	—	481
—	—	—	—	—	—	(13,276)
17,949	—	16,344	12,933	—	3,121	143,012
(20,259)	—	—	—	—	(1,442)	(188,130)
—	—	(815,189)	—	—	—	(815,189)
(4,091)	—	408	—	—	—	(13,946)
(2,211)	—	—	—	—	—	(2,211)
(8,131)	—	(798,437)	12,933	—	1,679	(889,259)
54,164	33,842	—	(8,481)	1,848	(250)	248,087
23,824	1,066	—	28,548	—	16,247	80,829
(43,403)	(1,064)	—	—	—	(517)	(88,656)
(19,579)	2	—	28,548	—	15,730	(7,827)
34,585	33,844	—	20,067	1,848	15,480	240,260
588,096	65,063	—	185,992	142,375	17,075	3,958,982
\$ 622,681	\$ 98,907	\$ —	\$ 206,059	\$ 144,223	\$ 32,555	\$ 4,199,242

Enterprise Funds

Combining Statement of Cash Flows

Year Ended June 30, 1996

(Amounts in thousands)

	Housing Loan	Water Resources	School Building Aid	Toll Facilities
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss).....	\$ (8,092)	\$ 188,226	\$ (19,672)	\$ 103,805
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS:				
Interest expense on operating debt.....	—	—	—	—
Depreciation.....	849	57,902	3,720	—
Accretion of capital appreciation bonds.....	—	—	—	—
Provisions and allowances.....	—	—	—	—
Accrual of deferred charge.....	—	—	—	430
Amortization of deferred credit.....	—	(3,575)	—	—
Amortization of discounts.....	(55)	—	—	—
Amortization (recovery) of deferred charges.....	—	(33,990)	—	—
Other.....	75	—	—	—
Change in assets and liabilities:				
Receivables.....	(874)	435	—	1,783
Due from other funds.....	506	(10,000)	—	(1,614)
Due from other governments.....	—	(18,923)	21	—
Prepaid items.....	—	(4,998)	—	(100)
Inventory.....	—	(5,032)	—	—
Net investment in direct financing leases.....	—	—	—	—
Advances and loans receivable.....	—	—	—	—
Other assets.....	(21,586)	—	—	(31)
Accounts payable.....	(12)	20,601	(493)	(13)
Interest payable.....	(4,393)	—	—	—
Due to other funds.....	(144)	(13,817)	(27,259)	9,885
Due to component units.....	—	—	154	—
Due to other governments.....	—	1,093	—	(434)
Benefits payable.....	(3,752)	—	—	—
Deposits.....	—	—	—	125
Lottery prizes and annuities.....	—	—	—	—
Contracts and notes payable.....	—	—	—	—
Compensated absences payable.....	—	(605)	—	—
Capital lease obligations.....	—	—	—	—
Advance collections.....	—	(22,772)	—	—
Other liabilities.....	—	1,847	—	12
Total Adjustments.....	(29,386)	(31,834)	(23,857)	10,043
Net Cash Provided by (Used In) Operating Activities.....	(37,478)	156,392	(43,529)	113,848
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Advances from other funds.....	—	—	—	—
Retirement of general obligation bonds.....	(189,890)	—	(16,750)	—
Retirement of revenue bonds.....	(65,463)	—	—	—
Interest paid on operating debt.....	—	—	(1,917)	—
Operating transfers in.....	—	—	—	—
Operating transfers out.....	—	—	(20,477)	(12,051)

California State University	Leasing of Public Assets	State Lottery	Harbors and Watercraft	Health Facilities Construction Loan Insurance	Other Enterprise	Total
\$ 62,295	\$ 33,842	\$ 798,437	\$ (21,414)	\$ 1,848	\$ (1,929)	\$ 1,137,346
—	(713)	—	—	—	—	(713)
—	—	10,489	—	—	2,226	75,186
—	10,000	—	—	—	—	10,000
—	—	2,514	—	—	—	2,514
—	(6,822)	—	—	—	—	(6,392)
—	—	—	—	—	—	(3,575)
—	(4,603)	—	—	—	—	(4,658)
—	—	1,803	—	—	—	(32,187)
—	—	8,203	472	—	829	9,579
(3,241)	—	2,355	15	1,013	(1,670)	(184)
(1,017)	(12,325)	1,667	772	54	(5,179)	(27,136)
(71)	—	—	(283)	—	(402)	(19,658)
382	—	41	(32)	—	611	(4,096)
—	—	2,166	—	—	303	(2,563)
—	(432,904)	—	—	—	—	(432,904)
—	—	—	—	—	251	251
—	177	—	40	—	—	(21,400)
196	9,582	1,918	800	726	9,193	42,498
—	—	—	—	—	29	(4,364)
889	4,787	207	(46,278)	(321)	(10,103)	(82,154)
—	1,023	—	—	—	—	1,177
—	488	154	7,761	26	14	9,102
—	—	—	—	—	219	(3,533)
41	—	142	(40)	—	(185)	83
—	—	87,627	—	—	—	87,627
—	—	—	—	—	(745)	(745)
—	—	184	—	182	68	(171)
—	—	—	—	—	313	313
(2,075)	10,378	1,325	(59)	15	641	(12,547)
2,302	—	—	—	—	8,574	12,735
(2,594)	(420,932)	120,795	(36,832)	1,695	4,987	(407,915)
59,701	(387,090)	919,232	(58,246)	3,543	3,058	729,431
—	—	—	—	—	347	347
—	—	—	—	—	(7,725)	(214,365)
—	—	—	—	—	—	(65,463)
—	—	—	—	—	—	(1,917)
23,197	—	—	28,548	—	16,247	67,992
(42,508)	—	—	—	—	(7,290)	(82,326)

(Continued)

Enterprise Funds

Combining Statement of Cash Flows

Year Ended June 30, 1996

(Amounts in thousands)

	Housing Loan	Water Resources	School Building Aid	Toll Facilities
CASH FLOWS FROM NONCAPITAL FINANCING				
ACTIVITIES:				
Grants provided.....	—	—	—	(13,276)
Lottery payments for education.....	—	—	—	—
Net Cash Provided by (Used In) Noncapital Financing Activities..	(255,353)	—	(39,144)	(25,327)
CASH FLOWS FROM CAPITAL AND RELATED				
FINANCING ACTIVITIES:				
Unamortized water project costs.....	—	1,384	—	—
Acquisition of fixed assets.....	—	(269,393)	—	(39,980)
Proceeds from sale of fixed assets.....	—	—	—	—
Advances from other funds.....	—	749	—	—
Return of advances from other funds.....	—	(27,011)	—	—
Proceeds from notes payable and commercial paper.....	—	244,454	—	—
Principal paid on notes payable and commercial paper.....	—	(277,509)	—	—
Retirement of general obligation bonds.....	—	(36,840)	—	—
Proceeds from revenue bonds.....	—	485,287	—	—
Retirement of revenue bonds.....	—	(199,221)	—	(6,170)
Interest paid.....	(161)	(171,603)	—	(2,482)
Contributed capital.....	—	—	—	—
Grants received.....	—	—	—	—
Operating transfers in.....	—	—	—	—
Operating transfers out.....	—	—	—	—
Payment of deferred costs.....	—	—	—	—
Payment to refunding bond escrow agent.....	—	—	—	—
Other costs.....	—	—	—	—
Net Cash Provided by (Used In) Capital and Related				
Financing Activities.....	(161)	(249,703)	—	(48,632)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investments.....	(112)	—	—	—
Advances and loans provided.....	—	—	—	(1,626)
Collection of advances and loans.....	126,049	3,057	34,990	—
Proceeds from maturity and sale of investments.....	143,216	—	—	5
Interest and gains on investments.....	11,188	20,273	23,219	35,359
Net Cash Provided by (Used In) Investing Activities.....	280,341	23,330	58,209	33,738
Net Increase (Decrease) in Cash and Pooled Investments.....	(12,651)	(69,981)	(24,464)	73,627
Cash and Pooled Investments at July 1, 1995.....	326,577	418,093	102,179	582,679
Cash and Pooled Investments at June 30, 1996.....	\$ 313,926	\$ 348,112	\$ 77,715	\$ 656,306

California State University	Leasing of Public Assets	State Lottery	Harbors and Watercraft	Health Facilities Construction Loan Insurance	Other Enterprise	Total
—	—	—	—	—	—	(13,276)
—	—	(847,922)	—	—	—	(847,922)
(19,311)	—	(847,922)	28,548	—	1,579	(1,156,930)
—	—	—	—	—	—	1,384
(36,186)	—	(29,816)	(40)	—	(2,315)	(377,730)
—	—	111	—	151	—	262
—	287,920	—	—	—	—	288,669
—	(287,920)	—	—	—	—	(314,931)
—	—	—	—	—	—	244,454
—	—	—	—	—	—	(277,509)
—	—	—	—	—	—	(36,840)
182,944	634,985	—	—	—	—	1,303,216
(22,495)	(203,309)	—	—	—	—	(431,195)
(19,820)	—	—	—	—	(1,442)	(195,508)
718	—	—	—	—	737	1,455
481	—	—	—	—	—	481
—	1,066	—	—	—	—	1,066
—	(1,064)	—	—	—	—	(1,064)
—	6,070	—	—	—	—	6,070
(162,202)	—	—	—	—	—	(162,202)
—	(1,512)	—	—	—	—	(1,512)
(56,560)	436,236	(29,705)	(40)	151	(3,020)	48,566
—	—	(324,488)	—	—	(138)	(324,738)
—	—	—	(9,462)	—	(1,081)	(12,169)
56	—	—	6,469	—	488	171,109
—	4,518	262,153	—	—	—	409,892
19,320	1,261	16,595	4,664	—	3,121	135,000
19,376	5,779	(45,740)	1,671	—	2,390	379,094
3,206	54,925	(4,135)	(28,067)	3,694	4,007	161
357,438	865,195	184,324	102,987	137,892	70,834	3,148,198
\$ 360,644	\$ 920,120	\$ 180,189	\$ 74,920	\$ 141,586	\$ 74,841	\$ 3,148,359

(Concluded)

Internal Service Funds

Internal Service Funds account for State activities that provide goods and services to other State departments or agencies on a cost reimbursement basis. A brief description of the major internal service funds follows:

Architecture Revolving Fund accounts for charges for the costs of architectural services, construction, and improvements.

Service Revolving Fund accounts for charges for printing and procurement services rendered by the Department of General Services for state departments and other public entities.

Prison Industries Fund accounts for charges for goods produced by inmates in state prisons that are sold to state departments and other governmental entities.

Stephen P. Teale Data Center Fund accounts for charges for data processing services performed for various state departments by the Stephen P. Teale Data Center.

Health and Welfare Agency Data Center Fund accounts for charges for data processing services performed for various state departments by the Health and Welfare Agency Data Center.

Water Resources Revolving Fund accounts for charges for administrative services related to water delivery provided by the Department of Water Resources to federal, state, and local government agencies.

Other Internal Service Funds account for all other goods or services provided to other agencies, departments, or governments on a cost reimbursement basis.

Internal Service Funds

Combining Balance Sheet

June 30, 1996

(Amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries
ASSETS:			
Cash and pooled investments.....	\$ 92,940	\$ 6,989	\$ 41,745
Receivables (net).....	1	857	1,048
Due from other funds.....	50,835	78,389	28,889
Due from other governments.....	14,577	1,192	959
Prepaid items.....	10	7,730	523
Inventory, at cost.....	—	28,194	51,473
Fixed assets.....	778	69,590	71,254
Other assets.....	22	623	27
Total Assets.....	\$ 159,163	\$ 193,564	\$ 195,918
LIABILITIES:			
Accounts payable.....	\$ 30,215	\$ 10,673	\$ 10,412
Due to other funds.....	16,391	86,856	3,049
Due to component units.....	881	9,147	7,219
Due to other governments.....	—	36	—
Advances from other funds.....	—	—	1,278
Deposits.....	—	1,796	—
Contracts and notes payable.....	—	17,367	1,756
Compensated absences payable.....	2,306	18,023	5,535
Capital lease obligations.....	—	5,713	—
Advance collections.....	117,630	354	2,195
Other liabilities.....	311	1,644	1,301
Total Liabilities.....	167,734	151,609	32,745
FUND EQUITY:			
Contributed capital.....	—	—	110,779
Retained earnings:			
Unreserved.....	(8,571)	41,955	52,394
Total Retained Earnings.....	(8,571)	41,955	52,394
Total Fund Equity.....	(8,571)	41,955	163,173
Total Liabilities and Fund Equity.....	\$ 159,163	\$ 193,564	\$ 195,918

Stephen P. Teale Data Center	Health and Welfare Agency Data Center	Water Resources Revolving	Other Internal Service	Total
\$ 5,599	\$ 12,140	\$ 11,292	\$ 10,720	\$ 181,425
90	230	59	14	2,299
18,854	46,809	49,990	2,323	276,089
—	294	—	—	17,022
3	658	3,416	1,040	13,380
—	—	—	—	79,667
23,790	53,375	27,905	1,662	248,354
2,064	6,276	135	—	9,147
\$ 50,400	\$ 119,782	\$ 92,797	\$ 15,759	\$ 827,383
\$ 6,514	\$ 21,232	\$ 10,846	\$ 746	\$ 90,638
392	16	596	10,610	117,910
701	—	936	—	18,884
—	—	—	15	51
—	—	91,877	1,731	94,886
—	—	—	—	1,796
11,137	27,177	—	—	57,437
3,010	3,312	4,508	—	36,694
—	26,621	—	—	32,334
—	24,043	—	—	144,222
4	32	1,699	—	4,991
21,758	102,433	110,462	13,102	599,843
—	1,000	—	460	112,239
28,642	16,349	(17,665)	2,197	115,301
28,642	16,349	(17,665)	2,197	115,301
28,642	17,349	(17,665)	2,657	227,540
\$ 50,400	\$ 119,782	\$ 92,797	\$ 15,759	\$ 827,383

Internal Service Funds

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings

Year Ended June 30, 1996

(Amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries
OPERATING REVENUES:			
Services and sales.....	\$ 228,252	\$ 376,626	\$ 147,039
Total Operating Revenues.....	228,252	376,626	147,039
OPERATING EXPENSES:			
Personal services.....	21,855	152,067	48,716
Supplies.....	—	15,170	3,054
Services and charges.....	206,896	196,538	102,434
Depreciation.....	65	14,296	7,493
Interest expense.....	—	—	—
Total Operating Expenses.....	228,816	378,071	161,697
Operating Income (Loss).....	(564)	(1,445)	(14,658)
NONOPERATING REVENUES (EXPENSES):			
Interest revenue.....	—	—	976
Interest expense and fiscal charges.....	—	(2,257)	(326)
Other.....	(66)	168	(1,331)
Total Nonoperating Revenues (Expenses).....	(66)	(2,089)	(681)
Income (Loss) Before Operating Transfers.....	(630)	(3,534)	(15,339)
OPERATING TRANSFERS:			
Operating transfers in.....	—	—	13,011
Operating transfers out.....	—	(3,420)	—
Total Operating Transfers.....	—	(3,420)	13,011
Net Income (Loss).....	(630)	(6,954)	(2,328)
Retained Earnings, July 1, 1995.....	(7,941)	48,909	54,722
Retained Earnings, June 30, 1996.....	\$ (8,571)	\$ 41,955	\$ 52,394

Stephen P. Teale Data Center	Health and Welfare Agency Data Center	Water Resources Revolving	Other Internal Service	Total
\$ 69,264	\$ 160,882	\$ 103,779	\$ 50,137	\$ 1,135,979
69,264	160,882	103,779	50,137	1,135,979
23,582	25,001	35,492	58	306,771
—	—	—	—	18,224
41,692	115,946	72,854	46,470	782,830
10,075	16,340	2,300	106	50,675
557	3,941	—	210	4,708
75,906	161,228	110,646	46,844	1,163,208
(6,642)	(346)	(6,867)	3,293	(27,229)
100	403	—	110	1,589
—	—	—	—	(2,583)
—	—	—	—	(1,229)
100	403	—	110	(2,223)
(6,542)	57	(6,867)	3,403	(29,452)
—	—	—	—	13,011
—	—	—	—	(3,420)
—	—	—	—	9,591
(6,542)	57	(6,867)	3,403	(19,861)
35,184	16,292	(10,798)	(1,206)	135,162
\$ 28,642	\$ 16,349	\$ (17,665)	\$ 2,197	\$ 115,301

Internal Service Funds

Combining Statement of Cash Flows

Year Ended June 30, 1996

(Amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income (loss).....	\$ (564)	\$ (1,445)	\$ (14,658)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS)			
TO NET CASH PROVIDED BY OPERATIONS:			
Interest expense on operating debt.....	—	—	—
Depreciation.....	65	14,296	7,493
Other.....	—	5,927	—
Change in assets and liabilities:			
Receivables.....	14	34	(601)
Due from other funds.....	(9,286)	1,373	6,514
Due from other governments.....	(14,577)	(447)	810
Prepaid items.....	13	1,913	215
Inventory.....	—	14	(12,758)
Other assets.....	20	173	—
Accounts payable.....	11,847	(4,834)	(1,466)
Due to other funds.....	13,972	9,622	100
Due to component units.....	99	(6,836)	749
Due to other governments.....	—	(6)	—
Deposits.....	—	329	—
Compensated absences payable.....	602	(1,037)	140
Advance collections.....	(8,760)	(598)	2,153
Other liabilities.....	53	1,423	653
Total Adjustments.....	(5,938)	21,346	4,002
Net Cash Provided by (Used In) Operating Activities.....	(6,502)	19,901	(10,656)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Advances from other funds.....	—	—	—
Return of advances from other funds.....	—	—	—
Operating transfers in.....	—	—	13,011
Other expenses.....	—	—	(344)
Net Cash Provided by (Used In) Noncapital Financing Activities.....	—	—	12,667

Stephen P. Teale Data Center	Health and Welfare Agency Data Center	Water Resources Revolving	Other Internal Service	Total
\$ (6,642)	\$ (346)	\$ (6,867)	\$ 3,293	\$ (27,229)
557	—	—	210	767
10,075	16,340	2,300	106	50,675
2,241	—	—	23	8,191
58	144	175	87	(89)
6,295	(26,966)	11,796	(2,082)	(12,356)
—	77	—	—	(14,137)
41	(624)	33	(17)	1,574
—	—	—	114	(12,630)
—	—	90	—	283
(3,767)	14,638	(4,247)	331	12,502
(423)	(55)	—	7,971	31,187
216	(60)	—	—	(5,832)
—	—	—	15	9
—	—	—	—	329
43	756	937	—	1,441
—	23,967	—	—	16,762
—	(4)	15	—	2,140
15,336	28,213	11,099	6,758	80,816
8,694	27,867	4,232	10,051	53,587
—	—	10,000	—	10,000
—	—	—	(2,100)	(2,100)
—	—	—	—	13,011
—	—	—	—	(344)
—	—	10,000	(2,100)	20,567
(Continued)				

Internal Service Funds

Combining Statement of Cash Flows

Year Ended June 30, 1996

(Amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of intangible assets.....	—	—	—
Acquisition of fixed assets.....	—	(16,313)	(12,164)
Proceeds from sale of fixed assets.....	—	1,500	377
Return of advances from other funds.....	—	2,300	(1,161)
Principal paid on notes payable.....	—	(1,584)	(963)
Payment of capital lease obligations.....	—	(259)	—
Interest paid.....	—	(2,257)	(326)
Contributed capital.....	—	—	1,936
Other costs.....	—	—	(299)
Net Cash Provided by (Used In) Capital and Related Financing Activities.....	—	(16,613)	(12,600)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Advances and loans provided.....	—	(16,000)	(15,400)
Interest and gains on investments.....	—	—	1,586
Net Cash Provided by (Used In) Investing Activities.....	—	(16,000)	(13,814)
Net Increase (Decrease) In Cash and Pooled Investments.....	(6,502)	(12,712)	(24,403)
Cash and Pooled Investments at July 1, 1995.....	99,442	19,701	66,148
Cash and Pooled Investments at June 30, 1996.....	\$ 92,940	\$ 6,989	\$ 41,745

Stephen P. Teale Data Center	Health and Welfare Agency Data Center	Water Resources Revolving	Other Internal Service	Total
(234)	(1,553)	—	—	(1,787)
(3,067)	(5,395)	(11,503)	—	(48,442)
—	1	1,330	—	3,208
—	—	—	(193)	946
(5,498)	(10,119)	—	—	(18,164)
—	(1,656)	—	—	(1,915)
(557)	—	—	(210)	(3,350)
—	—	—	—	1,936
—	—	—	—	(299)
(9,356)	(18,722)	(10,173)	(403)	(67,867)
(7,200)	(6,400)	—	—	(45,000)
283	403	—	110	2,382
(6,917)	(5,997)	—	110	(42,618)
(7,579)	3,148	4,059	7,658	(36,331)
13,178	8,992	7,233	3,062	217,756
\$ 5,599	\$ 12,140	\$ 11,292	\$ 10,720	\$ 181,425
(Concluded)				

Trust and Agency Funds

Trust funds are used to account for assets held by the government in a trustee capacity. Agency funds are used to account for assets held by the government as an agency for individuals, private organizations, other governments and/or other funds. A description of the funds included in this fund type follows:

Expendable Trust Funds account for assets held by the State in a trustee capacity where the principal and income may be expended in the course of the fund's designated operations. Major funds included in this group are Unemployment, School Employees, Unemployment Compensation Disability, California State University and Colleges Trust, State Guaranteed Loan Reserve, Housing Loan, Unclaimed Property, and Public Employees Health Care.

Pension Trust Funds account for transactions, assets, liabilities, and net assets available for plan benefits of the various state public employees' retirement systems. Funds included in this group are Public Employees' Retirement, Teachers' Retirement, Judges' Retirement, Legislators' Retirement, and Volunteer Firefighters' Length of Service Award.

Agency Funds account for the receipt and disbursement of various taxes, deposits, deductions and property collected by the State, acting in the capacity of an agent, for distribution to other governmental units or other organizations. Major agency funds included in this group include Local Agency Investment, Revenue Collecting and Disbursing, Deposit, Deferred Compensation Plan, and Departmental Trust.

Trust and Agency Funds Combining Balance Sheet

June 30, 1996

(Amounts in thousands)

	Expendable Trust	Pension Trust	Agency Funds	Total
ASSETS:				
Cash and pooled investments.....	\$ 2,584,659	\$ 720,503	\$ 13,651,412	\$ 16,956,574
Investments.....	107,582	162,556,412	2,869,267	165,533,261
Amount on deposit with U.S.Treasury.....	2,914,135	—	—	2,914,135
Receivables (net).....	355,176	4,879,149	6,023,060	11,257,385
Due from other funds.....	217,898	1,132,446	5,632,495	6,982,839
Due from other governments.....	128,709	337,082	190,739	656,530
Prepaid items.....	—	—	22,862	22,862
Advances and loans receivable.....	746,187	—	659,239	1,405,426
Other assets.....	6,286	86,548	32,126	124,960
Total Assets.....	\$ 7,060,632	\$ 169,712,140	\$ 29,081,200	\$ 205,853,972
LIABILITIES:				
Accounts payable.....	\$ 155,562	\$ 3,321,804	\$ 3,239,434	\$ 6,716,800
Due to other funds.....	116,030	492	6,240,096	6,356,618
Due to component units.....	—	—	2,519	2,519
Due to other governments.....	88,195	11	14,094,429	14,182,635
Advances from other funds.....	125	—	644,635	644,760
Tax overpayments.....	27,381	—	1,221,660	1,249,041
Benefits payable.....	197,268	576,734	—	774,002
Deposits.....	28,666	—	3,233,880	3,262,546
Advance collections.....	10,375	—	72,996	83,371
Other liabilities.....	287,834	540,882	331,551	1,160,267
Total Liabilities.....	911,436	4,439,923	29,081,200	34,432,559
FUND BALANCES:				
Reserved for:				
Encumbrances.....	3	—	—	3
Advances and loans.....	505,864	—	—	505,864
Employees' Pension Benefits.....	—	165,272,217	—	165,272,217
Other specific purposes.....	5,643,329	—	—	5,643,329
Total Fund Balances.....	6,149,196	165,272,217	—	171,421,413
Total Liabilities and Fund Balances.....	\$ 7,060,632	\$ 169,712,140	\$ 29,081,200	\$ 205,853,972

Expendable Trust Funds

Expendable Trust Funds account for assets held by the State in a trustee capacity where the principal and income may be expended in the course of the fund's designated operations. A brief description of major expendable trust funds follows:

Unemployment Fund accounts for employer contributions used for payments of unemployment insurance benefits.

School Employees Fund accounts for contributions from employers of school employees that are used for payments of unemployment insurance benefits.

Unemployment Compensation Disability Fund accounts for taxes on wages of workers that are used to pay disability benefits.

California State University and Colleges Trust Fund accounts for receipts from gifts, bequests, donations, and federal and state grants and loans that can only be expended for the purpose for which they were received.

State Guaranteed Loan Reserve Fund accounts for monies received from any source for the purpose of guaranteeing loans to college students.

Housing Loan Fund accounts for various housing program loans.

Unclaimed Property Fund accounts for unclaimed money and properties held in trust by the State.

Public Employees Health Care Fund accounts for employer and employee contributions which pay benefits, claims costs, and administrative costs of self-funded or minimum premium health benefit plans.

Other Expendable Trust Funds account for other assets held in a trustee capacity when both principal and income may be expended in the course of a fund's designated operations.

Expendable Trust Funds Combining Balance Sheet

June 30, 1996

(Amounts in thousands)

	Unemployment	School Employees	Unemployment Compensation Disability	California State University and Colleges Trust
ASSETS:				
Cash and pooled investments.....	\$ 1,387	\$ 82,638	\$ 1,751,712	\$ 30,655
Investments.....	—	—	—	81,865
Amount on deposit with U.S.Treasury.....	2,914,135	—	—	—
Receivables (net).....	120,540	70	24,255	194,099
Due from other funds.....	16,949	2,353	68,616	43,753
Due from other governments.....	16,747	6,251	—	3,974
Advances and loans receivable.....	—	—	—	—
Other assets.....	—	—	—	21
Total Assets.....	\$ 3,069,758	\$ 91,312	\$ 1,844,583	\$ 354,367
LIABILITIES:				
Accounts payable.....	\$ 1,411	\$ —	\$ 156	\$ 5,334
Due to other funds.....	76,836	6,778	10,320	7,782
Due to other governments.....	6,387	—	—	80
Advances from other funds.....	—	—	—	125
Tax overpayments.....	15,666	113	11,602	—
Benefits payable.....	115,102	—	82,166	—
Deposits.....	—	—	1,900	20,483
Advance collections.....	—	—	—	8,136
Other liabilities.....	654	—	—	7,605
Total Liabilities.....	216,056	6,891	106,144	49,545
FUND BALANCES:				
Reserved for:				
Encumbrances.....	—	—	—	—
Advances and loans.....	—	—	—	—
Other specific purposes.....	2,853,702	84,421	1,738,439	304,822
Total Fund Balances.....	2,853,702	84,421	1,738,439	304,822
Total Liabilities and Fund Balances.....	\$ 3,069,758	\$ 91,312	\$ 1,844,583	\$ 354,367

State Guaranteed Loan Reserve	Housing Loan	Unclaimed Property Fund	Public Employees Health Care	Other Expendable Trust	Total
\$ 228,521	\$ 53,266	\$ 7,251	\$ 209,576	\$ 219,653	\$ 2,584,659
—	—	220	—	25,497	107,582
—	—	—	—	—	2,914,135
2,102	2,363	—	—	11,747	355,176
7,501	2,159	29,000	5,615	41,952	217,898
97,663	69	—	1,954	2,051	128,709
—	491,864	240,323	—	14,000	746,187
—	—	—	—	6,265	6,286
\$ 335,787	\$ 549,721	\$ 276,794	\$ 217,145	\$ 321,165	\$ 7,060,632
\$ 28,953	\$ 135	\$ —	\$ 111,575	\$ 7,998	\$ 155,562
674	777	—	1,976	10,887	116,030
44,230	—	—	—	37,498	88,195
—	—	—	—	—	125
—	—	—	—	—	27,381
—	—	—	—	—	197,268
—	—	—	—	6,283	28,666
—	—	—	—	2,239	10,375
—	1,347	276,794	—	1,434	287,834
73,857	2,259	276,794	113,551	66,339	911,436
—	—	—	—	3	3
—	491,864	—	—	14,000	505,864
261,930	55,598	—	103,594	240,823	5,643,329
261,930	547,462	—	103,594	254,826	6,149,196
\$ 335,787	\$ 549,721	\$ 276,794	\$ 217,145	\$ 321,165	\$ 7,060,632

Expendable Trust Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 1996

(Amounts in thousands)

	Unemployment	School Employees	Unemployment Compensation Disability	California State University and Colleges Trust
REVENUES:				
Taxes.....	\$ 3,484,610	\$ 23,918	\$ 1,908,781	\$ —
Insurance premiums.....	—	—	—	—
Charges for services.....	—	—	—	—
Fees	—	—	—	—
Penalties	—	—	—	—
Interest	157,464	5,025	97,112	8,757
Other	—	—	—	569,836
Total Revenues.....	3,642,074	28,943	2,005,893	578,593
EXPENDITURES:				
Current:				
General government	3	—	—	—
Education	—	—	—	710,347
Health and welfare	3,129,155	35,171	1,785,467	—
Resources	—	—	—	—
State and consumer services	—	—	—	—
Business and transportation	—	—	—	—
Total Expenditures.....	3,129,158	35,171	1,785,467	710,347
Excess (Deficiency) of Revenues Over (Under)				
Expenditures.....	512,916	(6,228)	220,426	(131,754)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	87,674	—	—	211,390
Operating transfers out	—	—	—	(30,443)
Net Other Financing Sources (Uses).....	87,674	—	—	180,947
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other				
Financing Uses.....	600,590	(6,228)	220,426	49,193
Fund Balances, July 1, 1995.....	2,253,112	90,649	1,518,013	255,629
Fund Balances, June 30, 1996.....	\$ 2,853,702	\$ 84,421	\$ 1,738,439	\$ 304,822

State Guaranteed Loan Reserve	Housing Loan	Unclaimed Property Fund	Public Employees Health Care	Other Expendable Trust	Total
\$ —	\$ —	\$ —	\$ —	\$ 31,344	\$ 5,448,653
14,176	—	—	707,872	34,090	756,138
—	—	—	—	9,138	9,138
38,995	—	—	—	4,454	43,449
—	—	—	—	24,129	24,129
11,944	(1)	—	11,357	7,339	298,997
6,778	4,195	332,821	—	190,636	1,104,266
71,893	4,194	332,821	719,229	301,130	7,684,770
—	4	88,472	715,146	84,983	888,608
55,708	—	—	—	89,578	855,633
—	—	—	—	647	4,950,440
—	—	—	—	45,571	45,571
—	—	—	—	22,660	22,660
—	8,293	—	—	4,541	12,834
55,708	8,297	88,472	715,146	247,980	6,775,746
16,185	(4,103)	244,349	4,083	53,150	909,024
12,307	20,753	—	—	2,188	334,312
—	(1,023)	(244,349)	—	(35,009)	(310,824)
12,307	19,730	(244,349)	—	(32,821)	23,488
28,492	15,627	—	4,083	20,329	932,512
233,438	531,835	—	99,511	234,497	5,216,684
\$ 261,930	\$ 547,462	\$ —	\$ 103,594	\$ 254,826	\$ 6,149,196

Pension Trust Funds

Pension Trust Funds account for transactions, assets, liabilities, and net assets available for plan benefits of the various state public employees' retirement systems. A brief description of each pension trust fund follows:

Public Employees' Retirement Fund accounts for the employee and employer contributions of the agent multiple-employer retirement system that provides pension benefits to employees of the State of California, non-teaching school employees, and employees of California public agencies.

Teachers' Retirement Fund accounts for the employee and employer contributions of the cost-sharing multiple-employer retirement system that provides pension benefits to teachers and certain other employees of the California public school system.

Judges' Retirement Fund account for the employee and employer contributions of the agent multiple-employer retirement system that provides pension benefits to judges of the California Supreme Court, courts of appeal, superior courts, and municipal courts.

Legislators' Retirement Fund accounts for the employee and employer contributions of the agent single-employer retirement system that provides pension benefits to members of the Legislature, constitutional officers, and legislative statutory officers who elect to participate in the plan.

Volunteer Firefighters' Length of Service Award Fund accounts for employer contributions of the agent multiple-employer defined benefit system that provides awards to volunteer firefighters.

Pension Trust Funds Combining Balance Sheet

June 30, 1996

(Amounts in thousands)

	Public Employees' Retirement	Teachers' Retirement
ASSETS:		
Cash and pooled investments.....	\$ 459,899	\$ 257,776
Investments.....	99,534,141	62,910,813
Receivables (net).....	945,475	3,932,950
Due from other funds.....	1,070,447	61,291
Due from other government.....	334,052	—
Other assets.....	82,082	4,466
Total Assets.....	102,426,096	67,167,296
LIABILITIES:		
Accounts payable.....	—	3,321,804
Due to other funds.....	—	—
Due to other governments.....	—	—
Benefits payable.....	322,471	253,781
Other liabilities.....	404,508	136,363
Total Liabilities.....	726,979	3,711,948
FUND BALANCES:		
Reserved for:		
Employees' Pension Benefits.....	101,699,117	63,455,348
Total Fund Balances.....	101,699,117	63,455,348
Total Liabilities and Fund Balances.....	\$102,426,096	\$ 67,167,296

Judges' Retirement	Legislators' Retirement	Volunteer Firefighters' Length of Service	Total
\$ 2,314	\$ 513	\$ 1	\$ 720,503
9,403	101,095	960	162,556,412
—	719	5	4,879,149
708	—	—	1,132,446
2,808	81	141	337,082
—	—	—	86,548
15,233	102,408	1,107	169,712,140
—	—	—	3,321,804
296	196	—	492
—	—	11	11
—	482	—	576,734
3	8	—	540,882
299	686	11	4,439,923
14,934	101,722	1,096	165,272,217
14,934	101,722	1,096	165,272,217
\$ 15,233	\$ 102,408	\$ 1,107	\$169,712,140

Pension Trust Funds

Combining Statement of Changes

in Plan Net Assets

Year Ended June 30, 1996

(Amounts in thousands)

	Public Employees' Retirement	Teachers' Retirement
ADDITIONS:		
Contributions:		
Employer.....	\$ 1,850,104	\$ 1,895,644
Plan member.....	1,338,045	1,089,047
Total Contributions.....	3,188,149	2,984,691
Investment income:		
Net appreciation (depreciation) in fair value of investments.....	9,093,803	4,713,397
Interest, dividends and other investment income.....	4,366,759	2,791,275
Less: Investment expense.....	(325,107)	(40,992)
Net Investment Income.....	13,135,455	7,463,680
Other.....	1,747	88
Total Additions.....	16,325,351	10,448,459
DEDUCTIONS:		
Benefits.....	3,846,390	2,580,065
Refunds of contributions.....	138,297	69,208
Administrative expense.....	80,682	206,001
Total Deductions.....	4,065,369	2,855,274
Net Increase (Decrease) in Fund Balance Reserved for Employees' Pension Benefits.....	12,259,982	7,593,185
Fund Balance Reserved for Employees' Pension Benefits, July 1, 1995.....	89,439,135	55,862,163
Fund Balance Reserved for Employees' Pension Benefits, June 30, 1996.....	\$ 101,699,117	\$ 63,455,348

Judges' Retirement	Legislators' Retirement	Volunteer Firefighters' Length of Service	Total
\$ 62,440	\$ 575	\$ 55	\$ 3,808,818
13,381	422	—	2,440,895
75,821	997	55	6,249,713
—	8,636	97	13,815,933
1,562	4,664	32	7,164,292
—	—	—	(366,099)
1,562	13,300	129	20,614,126
15	—	—	1,850
77,398	14,297	184	26,865,689
71,666	5,585	12	6,503,718
29	72	—	207,606
298	225	10	287,216
71,993	5,882	22	6,998,540
5,405	8,415	162	19,867,149
9,529	93,307	934	145,405,068
\$ 14,934	\$ 101,722	\$ 1,096	\$ 165,272,217

Agency Funds

Agency Funds account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent for distribution to other governmental units or other organizations. A brief description of major agency funds follows:

Local Agency Investment Fund accounts for assets held for investment purposes on behalf of local governments and local public agencies.

Revenue Collecting and Disbursing Fund accounts for revenues and receipts collected on behalf of other funds and local governments for subsequent disbursement to them. This fund also accounts for receipts from numerous state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

Deposit Fund accounts for various deposits such as condemnation and litigation.

Deferred Compensation Plan Fund accounts for moneys withheld from the salaries of participants; the moneys are invested until the employee retires or resigns at which time all money withdrawn, including investment income, is subject to income taxes.

Departmental Trust Fund accounts for various deposits held in trust by state departments.

Other Agency Funds account for other assets held by the State, which acts as an agent for individuals, private organizations, other governments, or other funds.

Agency Funds Combining Balance Sheet

June 30, 1996

(Amounts in thousands)

	Local Agency Investment	Revenue Collecting and Disbursing
ASSETS:		
Cash and pooled investments.....	\$ 10,407,910	\$ 2,537,259
Investments.....	—	—
Receivables (net).....	—	5,536,100
Due from other funds.....	159,225	5,235,525
Due from other governments.....	—	174,255
Prepaid items.....	—	20,766
Advances and loans receivable.....	—	636,179
Other assets.....	—	—
Total Assets.....	\$ 10,567,135	\$ 14,140,084
LIABILITIES:		
Accounts payable.....	\$ —	\$ 3,169,234
Due to other funds.....	55,716	5,452,679
Due to component units.....	—	—
Due to other governments.....	10,511,419	3,501,876
Advances from other funds.....	—	644,179
Tax overpayments.....	—	1,221,660
Deposits.....	—	6,035
Advance collections.....	—	69,880
Other liabilities.....	—	74,541
Total Liabilities.....	\$ 10,567,135	\$ 14,140,084

Deposit	Deferred Compensation Plan	Departmental Trust	Other Agency	Total
\$ 368,947	\$ 507	\$ 54,575	\$ 282,214	\$ 13,651,412
—	2,869,267	—	—	2,869,267
484,975	817	1,038	130	6,023,060
19,784	19,125	582	198,254	5,632,495
1,296	—	—	15,188	190,739
2,096	—	—	—	22,862
20,944	—	—	2,116	659,239
9,716	—	22,410	—	32,126
\$ 907,758	\$ 2,889,716	\$ 78,605	\$ 497,902	\$ 29,081,200
\$ 11,221	\$ 530	\$ 193	\$ 58,256	\$ 3,239,434
451,080	332	696	279,593	6,240,096
—	—	—	2,519	2,519
23,080	—	—	58,054	14,094,429
456	—	—	—	644,635
—	—	—	—	1,221,660
164,048	2,888,838	77,693	97,266	3,233,880
3,089	—	23	4	72,996
254,784	16	—	2,210	331,551
\$ 907,758	\$ 2,889,716	\$ 78,605	\$ 497,902	\$ 29,081,200

Agency Funds

Combining Statement of Changes in Assets and Liabilities

Year Ended June 30, 1996

(Amounts in thousands)

Local Agency Investment	Balance July 1, 1995	Additions	Deductions	Balance June 30, 1996
ASSETS:				
Cash and pooled investments.....	\$ 9,505,565	\$ 14,289,148	\$ 13,386,803	\$ 10,407,910
Due from other funds.....	371,821	422,130	634,726	159,225
Total Assets.....	\$ 9,877,386	\$ 14,711,278	\$ 14,021,529	\$ 10,567,135
LIABILITIES:				
Due to other funds.....	\$ 379,650	\$ —	\$ 323,934	\$ 55,716
Due to other governments.....	9,497,736	13,867,018	12,853,335	10,511,419
Total Liabilities.....	\$ 9,877,386	\$ 13,867,018	\$ 13,177,269	\$ 10,567,135

Revenue Collecting and Disbursing

ASSETS:				
Cash and pooled investments.....	\$ 2,767,576	\$ 151,778,411	\$ 152,008,728	\$ 2,537,259
Receivables (net).....	4,350,385	4,972,311	3,786,596	5,536,100
Due from other funds.....	5,716,526	15,332,738	15,813,739	5,235,525
Due from other governments.....	22,068	153,499	1,312	174,255
Prepaid expenses.....	37,348	591	17,173	20,766
Advances and loans receivable.....	1,768,327	—	1,132,148	636,179
Other assets.....	—	700	700	—
Total Assets.....	\$ 14,662,230	\$ 172,238,250	\$ 172,760,396	\$ 14,140,084
LIABILITIES:				
Accounts payable.....	\$ 3,434,847	\$ 33,254,984	\$ 33,520,597	\$ 3,169,234
Due to other funds.....	5,453,284	47,535,595	47,536,200	5,452,679
Due to component units.....	—	—	—	—
Due to other governments.....	2,776,522	6,921,502	6,196,148	3,501,876
Advances from other funds.....	1,768,327	8,000	1,132,148	644,179
Tax overpayments.....	1,117,220	5,070,327	4,965,887	1,221,660
Deposits.....	5,095	248,809	247,869	6,035
Advance collections.....	37,697	95,538	63,355	69,880
Other liabilities.....	69,238	30,564	25,261	74,541
Total Liabilities.....	\$ 14,662,230	\$ 93,165,319	\$ 93,687,465	\$ 14,140,084

Agency Funds

Combining Statement of Changes in Assets and Liabilities

Year Ended June 30, 1996

(Amounts in thousands)

	Balance			Balance
Deposit	July 1, 1995	Additions	Deductions	June 30, 1996
ASSETS:				
Cash and pooled investments.....	\$ 478,285	\$ 4,481,581	\$ 4,590,919	\$ 368,947
Investments.....	33	—	33	—
Receivables (net).....	494,452	1,593,974	1,603,451	484,975
Due from other funds.....	30,629	16,248	27,093	19,784
Due from other governments.....	458	838	—	1,296
Prepaid expenses.....	1,724	372	—	2,096
Advances and loans receivable.....	20,936	8	—	20,944
Other assets.....	57	9,659	—	9,716
Total Assets.....	\$ 1,026,574	\$ 6,102,680	\$ 6,221,496	\$ 907,758
LIABILITIES:				
Accounts payable.....	\$ 23,078	\$ 244,833	\$ 256,690	\$ 11,221
Due to other funds.....	497,089	1,591,303	1,637,312	451,080
Due to other governments.....	32,105	237,288	246,313	23,080
Advances from other funds.....	435	21	—	456
Deposits.....	117,556	306,911	260,419	164,048
Advance collections.....	2,186	903	—	3,089
Other liabilities.....	354,125	281,605	380,946	254,784
Total Liabilities.....	\$ 1,026,574	\$ 2,662,864	\$ 2,781,680	\$ 907,758

Deferred Compensation Plan

ASSETS:				
Cash and pooled investments.....	\$ 413	\$ 137	\$ 43	\$ 507
Investments.....	2,450,393	419,048	174	2,869,267
Receivables (net).....	—	817	—	817
Due from other funds.....	17,198	1,927	—	19,125
Total Assets.....	\$ 2,468,004	\$ 421,929	\$ 217	\$ 2,889,716
LIABILITIES:				
Accounts payable.....	\$ 14	\$ 519	\$ 3	\$ 530
Due to other funds.....	322	31	21	332
Deposits.....	2,467,668	421,299	129	2,888,838
Other liabilities.....	—	16	—	16
Total Liabilities.....	\$ 2,468,004	\$ 421,865	\$ 153	\$ 2,889,716

(Continued)

Agency Funds

Combining Statement of Changes in Assets and Liabilities

Year Ended June 30, 1996

(Amounts in thousands)

Departmental Trust	Balance July 1, 1995	Additions	Deductions	Balance June 30, 1996
ASSETS:				
Cash and pooled investments.....	\$ 90,035	\$ —	\$ 35,460	\$ 54,575
Investments.....	1,513	—	1,513	—
Receivables (net).....	1,163	85	210	1,038
Due from other funds.....	4,182	71	3,671	582
Other assets.....	14,206	8,204	—	22,410
Total Assets.....	\$ 111,099	\$ 8,360	\$ 40,854	\$ 78,605
LIABILITIES:				
Accounts payable.....	\$ 66	\$ 134	\$ 7	\$ 193
Due to other funds.....	682	197	183	696
Deposits.....	110,304	—	32,611	77,693
Advance collections.....	—	23	—	23
Other liabilities.....	47	—	47	—
Total Liabilities.....	\$ 111,099	\$ 354	\$ 32,848	\$ 78,605
Other Agency				
ASSETS:				
Cash and pooled investments.....	\$ 101,582	\$ 4,968,843	\$ 4,788,211	\$ 282,214
Investments.....	7	—	7	—
Receivables (net).....	25	105	—	130
Due from other funds.....	18,014	847,499	667,259	198,254
Due from other governments.....	17,469	—	2,281	15,188
Advances and loans receivable.....	3,906	—	1,790	2,116
Other assets.....	131	—	131	—
Total Assets.....	\$ 141,134	\$ 5,816,447	\$ 5,459,679	\$ 497,902
LIABILITIES:				
Accounts payable.....	\$ 31,513	\$ 27,914	\$ 1,171	\$ 58,256
Due to other funds.....	1,170	279,085	662	279,593
Due to component units.....	—	2,519	—	2,519
Due to other governments.....	9,261	48,793	—	58,054
Advances from other funds.....	—	—	—	—
Deposits.....	91,962	16,440	11,136	97,266
Advance collections.....	—	4	—	4
Other liabilities.....	7,228	—	5,018	2,210
Total Liabilities.....	\$ 141,134	\$ 374,755	\$ 17,987	\$ 497,902

Agency Funds

Combining Statement of Changes in Assets and Liabilities

Year Ended June 30, 1996

(Amounts in thousands)

	Balance			Balance
Total	July 1, 1995	Additions	Deductions	June 30, 1996
ASSETS:				
Cash and pooled investments.....	\$ 12,943,456	\$ 175,518,120	\$ 174,810,164	\$ 13,651,412
Investments.....	2,451,946	419,048	1,727	2,869,267
Receivables (net).....	4,846,025	6,567,292	5,390,257	6,023,060
Due from other funds.....	6,158,370	16,620,613	17,146,488	5,632,495
Due from other governments.....	39,995	154,337	3,593	190,739
Prepaid expenses.....	39,072	963	17,173	22,862
Advances and loans receivable.....	1,793,169	8	1,133,938	659,239
Other assets.....	14,394	18,563	831	32,126
Total Assets.....	\$ 28,286,427	\$ 199,298,944	\$ 198,504,171	\$ 29,081,200
LIABILITIES:				
Accounts payable.....	3,489,518	33,528,384	33,778,468	3,239,434
Due to other funds.....	6,332,197	49,406,211	49,498,312	6,240,096
Due to component units.....	—	2,519	—	2,519
Due to other governments.....	12,315,624	21,074,601	19,295,796	14,094,429
Advances from other funds.....	1,768,762	8,021	1,132,148	644,635
Tax overpayments.....	1,117,220	5,070,327	4,965,887	1,221,660
Deposits.....	2,792,585	993,459	552,164	3,233,880
Advance collections.....	39,883	96,468	63,355	72,996
Other liabilities.....	430,638	312,185	411,272	331,551
Total Liabilities.....	\$ 28,286,427	\$ 110,492,175	\$ 109,697,402	\$ 29,081,200

(Concluded)

General Fixed Assets Account Group

Fixed assets used in governmental and expendable trust funds' operations are accounted for in the **General Fixed Assets Account Group**, rather than in individual funds. Public domain (infrastructure) assets consisting of certain improvements other than buildings (including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets) are not reported in the account group.

Schedule of General Fixed Assets By Source

June 30, 1996

(Amount in thousands)

	Total
GENERAL FIXED ASSETS:	
Land.....	\$ 1,957,254
Structures and improvements.....	10,063,599
Equipment.....	2,232,731
Construction in progress.....	774,374
Total General Fixed Assets.....	\$ 15,027,958
INVESTMENT IN GENERAL FIXED ASSETS BY SOURCE:	
General Fund.....	\$ 8,767,465
Special Revenue Funds.....	2,699,934
Capital Projects Funds.....	3,499,671
Expendable Trust Funds.....	60,888
Total Investment in General Fixed Assets.....	\$ 15,027,958

Schedule of General Fixed Assets By Function

June 30, 1996

(Amounts in thousands)

	Land	Structures and Improvements	Equipment	Construction in Progress	Total
FUNCTION:					
General government.....	\$ 9,203	\$ 680,390	\$ 204,310	\$ 8,047	\$ 901,950
Education.....	124,486	2,634,628	466,455	42,003	3,267,572
Health and welfare.....	10,853	618,724	175,193	—	804,770
Resources.....	1,424,641	774,885	266,535	39,254	2,505,315
State and consumer services.....	72,248	428,229	62,210	617,011	1,179,698
Business and transportation.....	214,740	565,185	891,908	14,500	1,686,333
Correctional programs.....	101,083	4,361,558	166,120	53,559	4,682,320
Total General Fixed Assets.....	\$ 1,957,254	\$ 10,063,599	\$ 2,232,731	\$ 774,374	\$ 15,027,958

Schedule of Changes in General Fixed Assets By Function

Year Ended June 30, 1996

(Amounts in thousands)

	Balance July 1, 1995	Capitalization Policy Adjustment (Deductions)	Additions	Other (Deductions)	Balance June 30, 1996
FUNCTION:					
General government.....	\$ 794,999	\$ 62,921	\$ 214,798	\$ 44,926	\$ 901,950
Education.....	3,045,015	279,036	1,007,724	506,131	3,267,572
Health and welfare.....	881,335	91,772	45,448	30,241	804,770
Resources.....	2,537,202	27,861	90,120	94,146	2,505,315
State and consumer services.....	1,250,689	28,162	4,320	47,149	1,179,698
Business and transportation.....	1,781,787	203,248	192,663	84,869	1,686,333
Correctional programs.....	4,087,683	39,034	710,744	77,073	4,682,320
Total General Fixed Assets.....	\$ 14,378,710	\$ 732,034	\$ 2,265,817	\$ 884,535	\$ 15,027,958

Component Units – Special Purpose Authorities

Special Purpose Authorities are legally separate entities which are discretely presented in the State's financial statements as component units in accordance with GASB Statement No. 14. The authorities' inclusion in the State's general purpose financial statements reflects the State's financial accountability for these entities. A brief description of the major authorities follows:

State Compensation Insurance Fund is a component unit created to offer insurance protection to employees at the lowest possible cost. This information is as of and for the year ended December 31, 1995.

The **California Housing Finance Agency** was created for the purpose of meeting the housing needs of persons and families of low and moderate income.

Other **Non-Major Component Units** provide certain services outside the State and provide certain private and public entities with a low-cost source of financing for activities that are deemed to be in the public interest.

The *California Alternative Energy and Advanced Transportation Financing Authority* was created to provide financing for the alternative energy and advanced transportation technologies.

The *California Pollution Control Financing Authority* was created to provide financing for pollution control facilities.

The *California Health Facilities Financing Authority* was created to provide financing for the construction, equipping, or acquiring of health facilities.

The *California Educational Facilities Authority* was created for the purpose of issuing revenue bonds to assist private educational institutions of higher learning in the expansion and construction of educational facilities.

The *California School Finance Authority* was created for the purpose of providing loans to school and community college districts to assist in obtaining equipment and facilities.

The *California Economic Development Financing Authority* was created for the purpose of issuing revenue and general obligation bonds to finance business development and public infrastructure projects.

District Agricultural Associations were created for the purpose of exhibiting all of the industries, industrial enterprises, resources, and products of the State.

The *San Joaquin River Conservancy* was created for the purpose of acquiring and managing public lands within the San Joaquin River Parkway.

Component Units – Special Purpose Authorities

Combining Balance Sheet

June 30, 1996

(Amounts in thousands)

	State Compensation Insurance	California Housing Finance Agency	California Alternative Energy and Advanced Transportation Financing Authority	California Pollution Control Financing Authority
ASSETS:				
Cash and pooled investments.....	\$ 214,926	\$ 280,879	\$ 293	\$ 59,005
Investments.....	5,913,923	975,760	—	—
Receivables (net).....	152,585	61,178	—	3
Due from other funds.....	—	—	—	20
Due from primary government.....	9,965	—	—	2,633
Advances and loans receivable.....	—	3,731,656	—	—
Deferred charges.....	—	—	—	—
Fixed assets.....	219,548	—	—	—
Other assets.....	746,941	53,288	—	—
Total Assets.....	\$ 7,257,888	\$ 5,102,761	\$ 293	\$ 61,661
LIABILITIES:				
Accounts payable.....	\$ —	\$ 112,837	\$ —	\$ 26
Due to other funds.....	—	—	—	—
Dividends payable.....	60,000	—	—	—
Benefits payable.....	4,619,802	—	—	—
Deposits.....	—	—	—	—
Contracts and notes payable.....	—	—	—	—
Compensated absences payable.....	21,205	977	—	—
Advance collections.....	154,095	74,901	—	—
Revenue bonds payable.....	—	4,337,755	—	—
Interest payable.....	—	114,804	—	—
Other liabilities.....	808,530	—	—	—
Total Liabilities.....	5,663,632	4,641,274	—	26
FUND EQUITY:				
Retained Earnings:				
Reserved for:				
Regulatory requirements.....	100,000	416,893	—	—
Unreserved.....	1,494,256	44,594	293	61,635
Total Retained Earnings.....	1,594,256	461,487	293	61,635
Total Fund Equity.....	1,594,256	461,487	293	61,635
Total Liabilities and Fund Equity.....	\$ 7,257,888	\$ 5,102,761	\$ 293	\$ 61,661

Non-Major Component Units

California Health Facilities Financing Authority	California Educational Facilities Authority	California School Finance Authority	California Economic Development Financing Authority	District Agricultural Associations	San Joaquin River Conservancy	Total
\$ 21,790	\$ 11,326	\$ 764	\$ 328	\$ 24,473	\$ 330	\$ 614,114
—	—	—	—	4,098	—	6,893,781
225	60	24	—	2,924	—	216,999
2	—	—	—	717	—	739
598	304	—	11	—	—	13,511
4,478	—	—	—	—	—	3,736,134
—	—	—	—	3,934	—	3,934
137	62	—	—	311,709	—	531,456
—	—	—	—	13,076	—	813,305
\$ 27,230	\$ 11,752	\$ 788	\$ 339	\$ 360,931	\$ 330	\$ 12,823,973
\$ 23	\$ 17	\$ 4	\$ 104	\$ 2,223	\$ 8	\$ 115,242
—	—	—	—	730	13	743
—	—	—	—	—	—	60,000
—	—	—	—	—	—	4,619,802
—	—	—	112	721	—	833
—	—	—	—	48,853	—	48,853
—	2	—	—	2,255	—	24,439
—	—	—	—	1,100	2	230,098
—	—	—	—	—	—	4,337,755
—	—	—	—	—	—	114,804
—	—	—	—	13,754	—	822,284
23	19	4	216	69,636	23	10,374,853
—	—	—	—	—	—	516,893
27,207	11,733	784	123	291,295	307	1,932,227
27,207	11,733	784	123	291,295	307	2,449,120
27,207	11,733	784	123	291,295	307	2,449,120
\$ 27,230	\$ 11,752	\$ 788	\$ 339	\$ 360,931	\$ 330	\$ 12,823,973

Component Units – Special Purpose Authorities

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings

Year End June 30, 1996

(Amounts in thousands)

	State Compensation Insurance	California Housing Finance Agency	California Alternative Energy and Advanced Transportation Financing Authority	California Pollution Control Financing Authority
OPERATING REVENUES:				
Service and sales.....	\$ —	\$ 16,811	\$ —	\$ 4,613
Earned premiums (net).....	1,077,384	—	—	—
Investment and interest.....	—	341,521	—	—
Contributions.....	—	—	—	—
Rent.....	—	—	—	—
Other.....	—	7,753	—	—
Total Operating Revenues.....	1,077,384	366,085	—	4,613
OPERATING EXPENSES:				
Personal services.....	102,489	9,658	—	—
Supplies.....	—	2,694	—	—
Services and charges.....	72,952	28,469	52	13,458
Depreciation.....	7,641	600	—	—
Benefits payments.....	953,491	—	—	—
Interest expense.....	—	274,501	—	—
Amortization of deferred charges.....	—	2,238	—	—
Total Operating Expenses.....	1,136,573	318,160	52	13,458
Operating Income (Loss).....	(59,189)	47,925	(52)	(8,845)
NONOPERATING REVENUES (EXPENSES):				
Grants received.....	—	72,470	—	—
Grants provided.....	—	(72,470)	—	—
Interest revenue.....	489,345	—	—	—
Interest expense and fiscal charges.....	—	—	—	—
Dividends paid.....	(281,513)	—	—	—
Other.....	—	—	—	—
Total Nonoperating Revenue (Expenses).....	207,832	—	—	—
Net Income (Loss).....	148,643	47,925	(52)	(8,845)
Retained Earnings, July 1, 1995.....	1,445,613	413,562	345	70,480
Retained Earnings, June 30, 1996.....	\$ 1,594,256	\$ 461,487	\$ 293	\$ 61,635

Non-Major Component Units

California Health Facilities Financing Authority	California Educational Facilities Authority	California School Finance Authority	California Economic Development Financing Authority	District Agricultural Associations	San Joaquin River Conservancy	Total
\$ 3,461	\$ 483	\$ —	\$ —	\$ 80,583	\$ —	\$ 105,951
—	—	—	—	—	—	1,077,384
—	—	—	—	1,219	—	342,740
—	—	—	—	2,071	—	2,071
—	—	—	—	17,683	—	17,683
—	—	48	—	—	—	7,801
3,461	483	48	—	101,556	—	1,553,630
—	72	—	—	—	—	112,219
—	—	—	—	—	25	2,719
1,173	172	134	—	104,882	56	221,348
—	17	—	—	3,294	—	11,552
—	—	—	—	—	—	953,491
—	—	—	—	—	—	274,501
—	—	—	—	—	—	2,238
1,173	261	134	—	108,176	81	1,578,068
2,288	222	(86)	—	(6,620)	(81)	(24,438)
—	—	—	—	—	—	72,470
—	—	—	—	—	—	(72,470)
—	615	—	122	83	—	490,165
—	—	—	(2)	(2,720)	—	(2,722)
—	—	—	—	—	—	(281,513)
—	—	—	(160)	(3,354)	—	(3,514)
—	615	—	(40)	(5,991)	—	202,416
2,288	837	(86)	(40)	(12,611)	(81)	177,978
24,919	10,896	870	163	303,906	388	2,271,142
\$ 27,207	\$ 11,733	\$ 784	\$ 123	\$ 291,295	\$ 307	\$ 2,449,120

Component Units – Special Purpose Authorities

Combining Statement of Cash Flows

Year Ended June 30, 1996

(Amounts in thousands)

	State Compensation Insurance	California Housing Finance Agency	California Alternative Energy and Advanced Transportation Financing Authority	California Pollution Control Financing Authority
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss).....	\$ (59,189)	\$ 47,925	\$ (52)	\$ (8,845)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS:				
Interest expense on operating debt.....	—	274,501	—	—
Interest on investments.....	—	(73,607)	—	—
Depreciation.....	7,641	600	—	—
Accretion of capital appreciation bonds.....	—	9,807	—	—
Provisions and allowances.....	—	3,067	—	—
Accrual of deferred charges.....	—	—	—	—
Amortization of deferred credits.....	—	(4,948)	—	—
Amortization of discounts.....	—	6,760	—	—
Other.....	753	—	—	—
Change in assets and liabilities:				
Receivables.....	23,829	(14,998)	—	3,047
Due from other funds.....	—	—	—	—
Due from primary government.....	(3,297)	—	—	(2,633)
Due from other governments.....	—	—	—	—
Prepaid items.....	—	—	—	(4)
Other assets.....	(427,219)	(17,589)	—	—
Accounts payable.....	—	6,066	(42)	(309)
Due to other funds.....	—	—	—	—
Benefits payable.....	(271,489)	—	—	—
Deposits.....	—	—	—	—
Compensated absences payable	2,323	(83)	—	—
Advance collections.....	(27,559)	14	—	—
Other liabilities.....	432,592	—	—	—
Total Adjustments.....	(262,426)	189,590	(42)	101
Net Cash Provided by (Used In)				
Operating Activities.....	(321,615)	237,515	(94)	(8,744)

Non-Major Component Units						
California Health Facilities Financing Authority	California Educational Facilities Authority	California School Finance Authority	California Economic Development Financing Authority	District Agricultural Associations	San Joaquin River Conservancy	Total
\$ 2,288	\$ 222	\$ (86)	\$ —	\$ (6,620)	\$ (81)	\$ (24,438)
—	—	—	—	—	—	274,501
—	—	—	—	—	—	(73,607)
—	17	—	—	3,294	—	11,552
—	—	—	—	—	—	9,807
—	—	—	—	—	—	3,067
—	—	—	—	(3,934)	—	(3,934)
—	—	—	—	—	—	(4,948)
—	—	—	—	—	—	6,760
—	—	—	—	19,423	—	20,176
389	346	2	—	(175)	—	12,440
(2)	(3)	(1)	—	(107)	—	(113)
(598)	(191)	—	(11)	—	—	(6,730)
—	7	—	—	—	—	7
—	—	—	—	—	—	(4)
—	—	—	—	(11,224)	—	(456,032)
(62)	(52)	(12)	104	(973)	—	4,720
—	(41)	—	—	436	13	408
—	—	—	—	—	—	(271,489)
—	—	—	112	721	—	833
—	(9)	—	—	2,255	—	4,486
—	—	—	—	(40)	2	(27,583)
—	—	—	—	11,083	—	443,675
(273)	74	(11)	205	20,759	15	(52,008)
2,015	296	(97)	205	14,139	(66)	(76,446)

(Continued)

Component Units – Special Purpose Authorities

Combining Statement of Cash Flows

Year Ended June 30, 1996

(Amounts in thousands)

	State Compensation Insurance	California Housing Finance Agency	California Alternative Energy and Advanced Transportation Financing Authority	California Pollution Control Financing Authority
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Dividends paid.....	(327,013)	—	—	—
Proceeds from revenue bonds.....	—	1,002,452	—	—
Retirement of revenue bonds.....	—	(427,560)	—	—
Interest paid on operating debt.....	—	(257,071)	—	—
Other expenses.....	—	—	—	—
Net Cash Provided by (Used In)				
Noncapital Financing Activities.....	(327,013)	317,821	—	—
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of fixed assets.....	(15,173)	—	—	—
Proceeds from sale of fixed assets.....	2,791	—	—	—
Proceeds from notes payable.....	—	—	—	—
Interest paid.....	—	—	—	—
Net Cash Provided by (Used In) Capital				
and Related Financing Activities.....	(12,382)	—	—	—
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investments.....	—	(106,793)	—	—
Advances and loans provided.....	—	(708,023)	—	—
Collection of advances and loans.....	—	223,917	—	—
Proceeds from maturity and sale of investments.....	134,932	—	—	1,464
Interest and gains on investments.....	489,345	73,607	—	—
Net Cash Provided by (Used In) Investing Activities.....	624,277	(517,292)	—	1,464
Net Increase (Decrease) in Cash and Pooled Investments..	(36,733)	38,044	(94)	(7,280)
Cash and Pooled Investments at July 1, 1995.....	251,659	242,835	387	66,285
Cash and Pooled Investments at June 30, 1996.....	\$ 214,926	\$ 280,879	\$ 293	\$ 59,005

Non-Major Component Units						
California Health Facilities Financing Authority	California Educational Facilities Authority	California School Finance Authority	California Economic Development Financing Authority	District Agricultural Associations	San Joaquin River Conservancy	Total
—	—	—	—	—	—	(327,013)
—	—	—	—	—	—	1,002,452
—	—	—	—	—	—	(427,560)
—	—	—	—	—	—	(257,071)
—	—	—	(160)	—	—	(160)
—	—	—	(160)	—	—	(9,352)
(26)	(44)	—	—	(13,437)	—	(28,680)
19	—	—	—	—	—	2,810
—	—	—	—	3,928	—	3,928
—	—	—	(2)	(2,720)	—	(2,722)
(7)	(44)	—	(2)	(12,229)	—	(24,664)
—	—	—	—	(2,317)	—	(109,110)
(1,838)	—	—	—	—	—	(709,861)
587	—	—	—	—	—	224,504
—	—	—	—	—	—	136,396
—	615	—	122	83	—	563,772
(1,251)	615	—	122	(2,234)	—	105,701
757	867	(97)	165	(324)	(66)	(4,761)
21,033	10,459	861	163	24,797	396	618,875
\$ 21,790	\$ 11,326	\$ 764	\$ 328	\$ 24,473	\$ 330	\$ 614,114
(Concluded)						

Statistical Section

General Government Revenues by Source and Expenditures by Function

For the Past Ten Years

(Amounts in thousands)

	1987	1988	1989
REVENUES:			
Taxes.....	\$ 30,650,517	\$ 31,784,962	\$ 36,743,408
Intergovernmental.....	9,804,735	9,532,594	11,226,909
Licenses and permits.....	1,275,597	1,389,586	1,440,119
Natural resources.....	167,422	225,340	119,456
Charges for services.....	274,388	237,164	258,984
Fees.....	627,867	784,597	907,562
Penalties.....	406,643	237,600	285,959
Interest.....	653,928	612,968	692,352
Other.....	429,706	225,105	281,422
Total Revenues.....	\$ 44,290,803	\$ 45,029,916	\$ 51,956,171
EXPENDITURES:			
Current:			
General government.....	\$ 1,880,521	\$ 1,842,331	\$ 2,081,579
Education.....	18,242,436	18,873,313	19,660,647
Health and welfare.....	16,499,778	17,040,861	19,539,017
Resources.....	766,707	765,176	1,409,351
State and consumer services.....	793,572	1,123,851	1,670,385
Business and transportation.....	2,999,779	3,304,988	3,367,150
Correctional programs.....	1,855,042	1,846,112	1,955,060
Property tax relief.....	993,548	1,011,781	949,699
Capital outlay.....	636,147	686,257	676,340
Debt service.....	638,535	678,340	856,538
Total Expenditures.....	\$ 45,306,065	\$ 47,173,010	\$ 52,165,766

Source: California State Controller's Office. Includes General Fund, special revenue funds, and capital projects funds.

1990	1991	1992	1993	1994	1995	1996
\$ 38,468,384	\$ 38,041,098	\$ 41,132,063	\$ 43,257,754	\$ 42,209,971	\$ 44,940,196	\$ 48,806,164
13,533,050	15,024,782	18,078,536	21,535,501	25,259,035	22,933,080	24,337,762
1,526,473	1,726,500	2,609,734	2,714,575	2,725,130	2,832,516	2,938,539
147,251	171,628	235,983	85,081	44,978	69,888	73,038
306,318	361,562	513,306	340,833	345,550	395,813	388,700
1,103,325	1,300,698	1,295,422	1,579,710	1,435,721	1,369,060	1,499,821
367,774	288,902	457,040	543,170	386,507	485,237	402,445
747,701	702,199	511,353	368,693	318,973	538,659	495,887
532,317	583,214	538,228	668,153	753,235	684,419	974,427
\$ 56,732,593	\$ 58,200,583	\$ 65,371,665	\$ 71,093,470	\$ 73,479,100	\$ 74,248,868	\$ 79,916,783

\$ 2,741,287	\$ 2,812,140	\$ 2,786,667	\$ 2,681,084	\$ 3,156,167	\$ 3,895,769	\$ 3,186,959
22,867,811	22,350,139	25,560,756	22,613,122	21,751,525	22,769,356	23,978,493
22,856,943	24,589,169	28,074,053	30,248,244	33,356,725	33,335,716	36,001,362
1,356,665	1,503,840	1,864,548	1,671,655	1,656,441	1,735,842	1,823,369
568,910	586,709	624,889	553,122	625,484	692,979	675,912
4,097,360	4,502,150	5,331,881	5,985,426	5,894,401	5,499,433	5,599,561
2,350,397	2,705,465	3,000,849	2,862,733	3,107,224	3,290,193	3,692,696
948,896	930,233	828,212	808,053	464,675	475,610	470,127
635,841	942,404	795,344	804,085	944,767	264,591	1,160,361
984,791	1,220,593	1,433,140	1,649,685	1,884,352	2,257,153	2,218,273
\$ 59,408,901	\$ 62,142,842	\$ 70,300,339	\$ 69,877,209	\$ 72,841,761	\$ 74,216,642	\$ 78,807,113

Schedule of General Obligation Bonds Outstanding

June 30, 1996

(Amounts in thousands)

GENERAL LONG-TERM OBLIGATIONS:

School Facilities.....	\$ 4,855,057
Higher Education Facilities.....	1,749,440
New Prison Construction.....	1,682,995
State School Building Lease-Purchase.....	1,020,825
Clean Air and Transportation Improvement.....	816,820
Passenger Rail and Clean Air.....	773,145
California Wildlife, Coastal, and Park Land Conservation.....	522,750
County Correctional Facility Capital Expenditure and Youth Facility.....	396,315
County Correctional Facility Capital Expenditure.....	382,785
County Jail Capital Expenditure.....	293,675
Housing and Homeless.....	252,895
California Park and Recreational Facilities.....	242,285
California Safe Drinking Water.....	224,980
Clean Water.....	183,030
Clean Water and Water Conservation.....	117,770
California Earthquake Safety and Housing Rehabilitation.....	110,020
California Parklands.....	98,865
Community Parklands.....	76,295
Water Conservation and Water Quality.....	75,455
Lake Tahoe Acquisitions.....	56,680
Fish and Wildlife Habitat Enhancement.....	53,220
California Library Construction and Renovation.....	52,610
Earthquake Safety and Public Building Rehabilitation.....	45,900
Clean Water and Water Reclamation.....	42,040
State, Urban, and Coastal Park.....	34,345
Water Conservation.....	30,370
Senior Center.....	25,000
State Beach, Park, Recreational and Historical Facilities.....	7,375
Harbor Development.....	1,230
Total General Long Term Obligations.....	14,224,172

ENTERPRISE FUNDS:

Veterans.....	2,812,810
California Water Resources Development.....	1,095,590
Hazardous Substance Cleanup.....	54,100
State School Building Aid.....	18,000
First Time Home Buyers.....	1,785
Total Enterprise Funds.....	3,982,285
Total General Obligation Bonds.....	\$18,206,457

Sources: California State Controller's Office

Schedule of General Long-Term Bonded Debt to Per Capita Personal Income

For the Past Ten Years

Year Ended	General Long-Term Bonded Debt (In thousands) (1)	Per Capita Debt	Per Capita Personal Income (2)	Percentage of Per Capita Debt to Per Capita Personal Income
1986	\$ 3,388,590	\$ 125.26	\$ 17,080	0.7 %
1987	3,366,735	121.47	18,165	0.7
1988	3,248,925	114.43	19,231	0.6
1989	4,115,450	141.22	20,138	0.7
1990	5,168,355	172.60	21,287	0.8
1991	7,735,955	253.10	21,411	1.2
1992	11,311,245	362.68	22,109	1.6
1993	13,262,192	420.79	22,356	1.9
1994	14,301,119	449.86	22,778	2.0
1995	14,843,814	462.96	24,073	1.9

Sources: (1) California State Controller's Office. Data for the year ended June 30.
 (2) California Department of Finance. Data for the year ended December 31.

Schedule of Annual Debt Service Expenditures for General Bonded Debt

Governmental Fund Types

For the Past Ten Years

(Amounts in thousands)

Year	Principal	Interest	Total Debt Service	Total General Expenditures	Percentage of Debt Service to Total General Expenditures
1987	\$ 271,855	\$ 366,680	\$ 638,535	\$ 45,306,065	1.4 %
1988	278,610	399,730	678,340	47,173,010	1.4
1989	273,475	583,063	856,538	52,165,766	1.6
1990	322,095	662,696	984,791	59,408,901	1.7
1991	388,400	832,193	1,220,593	62,142,842	2.0
1992	522,710	910,430	1,433,140	70,300,339	2.0
1993	666,950	982,735	1,649,685	69,877,209	2.4
1994	874,404	1,009,948	1,884,352	72,841,761	2.6
1995	954,400	1,302,753	2,257,153	74,216,642	3.0
1996	1,040,570	1,177,703	2,218,273	78,807,113	2.8

Sources: California State Controller's Office. Includes General Fund, special revenue funds, and capital projects funds.

Schedule of Revenue Bonds Coverage

For the Past Three Years

(Amounts in thousands)

	June 30	Gross	Operating	Net Revenue	Debt Service Requirements (c)			Coverage
		Revenue (a)	Expenses (b)	Available for Debt Service	Principal	Interest	Total	
Housing Loan	1996	303,421	51,529	251,892	65,463	248,152	313,615	0.80
	1995	301,712	74,661	227,051	167,370	253,546	420,916	0.54
	1994	307,635	50,614	257,021	254,440	275,156	529,596	0.49
Water Resources	1996	503,663	270,082	233,581	199,221	161,939	361,160	0.65
	1995	545,654	251,303	294,351	94,234	162,084	256,318	1.15
	1994	508,662	250,028	258,634	58,638	167,143	225,781	1.15
Leasing of Public Assets	1996	330,536	22,772	307,764	203,309	258,643	461,952	0.67
	1995	234,864	15,105	219,759	115,769	215,487	331,256	0.66
	1994	239,023	621	238,402	571,785	173,512	745,297	0.32
Toll Facilities	1996	176,586	36,992	139,594	6,170	2,412	8,582	16.27
	1995	167,729	37,991	129,738	5,745	2,724	8,469	15.32
	1994	158,521	43,714	114,807	72,445	4,364	76,809	1.49
California State University	1996	258,638	178,394	80,244	22,495	20,259	42,754	1.88
	1995	250,967	179,680	71,287	11,008	18,915	29,923	2.38
	1994	230,063	156,907	73,156	34,534	20,540	55,074	1.33
Building Authorities	1996	21,409	1,598	19,811	2,295	11,345	13,640	1.45
	1995	25,041	143	24,898	7,895	14,754	22,649	1.10
	1994	16,403	327	16,076	4,605	12,959	17,564	0.92

Sources: California State Controller's Office. Data not available prior to 1994.

- (a) Total revenues included non-operating interest revenue. Building authorities revenues also include operating transfers in.
- (b) Total operating expenses are exclusive of depreciation, interest expense, and amortization (recovery) of deferred charges. Building authorities expenditures also exclude capital outlay and debt service.
- (c) Includes principal and interest of revenue bonds.

Schedule of National and State Population

For the Past Fifteen Years

Year	United States Population (1)	Average Annual Percentage Increase	California Population (2)	Average Annual Percentage Increase	California as a Percentage of United States' Population
1981	229,466,000		24,278,000		10.6%
1982	231,664,000	1.0 %	24,805,000	2.2 %	10.7
1983	233,792,000	0.9	25,337,000	2.1	10.8
1984	235,825,000	0.9	25,816,000	1.9	10.9
1985	237,924,000	0.9	26,403,000	2.3	11.1
1986	240,133,000	0.9	27,052,000	2.5	11.3
1987	242,289,000	0.9	27,717,000	2.5	11.4
1988	244,499,000	0.9	28,393,000	2.4	11.6
1989	246,819,000	0.9	29,142,000	2.6	11.8
1990	249,403,000	1.0	29,944,000	2.8	12.0
1991	252,138,000	1.1	30,565,000	2.1	12.1
1992	255,039,000	1.2	31,188,000	2.0	12.2
1993	257,800,000	1.1	31,517,000	1.1	12.2
1994	260,350,000	1.0	31,790,000	0.9	12.2
1995	262,755,000	0.9	32,063,000	0.9	12.2

Sources: (1) Current Population Reports, Bureau of the Census of the U.S. Department of Commerce
 (2) California Department of Finance

Schedule of National and State Personal Income

For the Past Fifteen Years

Year	United States (1)		California (2)		California as a Percentage of United States' Personal Income
	Personal Income (In millions)	Percentage Change	Personal Income (In millions)	Percentage Change	
1981	\$ 2,549,100		\$ 314,132		12.3%
1982	2,708,600	6.3 %	335,230	6.7 %	12.4
1983	2,886,200	6.6	361,324	7.8	12.5
1984	3,194,700	10.7	402,017	11.3	12.6
1985	3,427,400	7.3	436,510	8.6	12.7
1986	3,635,700	6.1	468,316	7.3	12.9
1987	3,863,000	6.3	504,641	7.8	13.1
1988	4,160,700	7.7	547,466	8.5	13.2
1989	4,474,000	7.5	588,412	7.5	13.2
1990	4,774,000	6.7	636,593	8.2	13.3
1991	4,950,800	3.7	651,224	2.3	13.2
1992	5,248,600	6.0	683,398	4.9	13.0
1993	5,471,100	4.2	697,911	2.1	12.8
1994	5,739,900	4.9	715,923	2.6	12.5
1995	6,098,000	6.2	760,431	6.2	12.5

Sources: (1) Current Population Reports, Bureau of the Census of the U.S. Department of Commerce
(2) California Department of Finance

Schedule of National and State Per Capita Personal Income

For the Past Fifteen Years

Year	United States (1)		California (2)		California as a Percentage of United States' Per Capita Personal Income
	Per Capita Personal Income	Percent Change	Per Capita Personal Income	Percent Change	
1981	\$ 11,109		\$ 12,935		116.4 %
1982	11,692	5.2 %	13,506	4.4 %	115.5
1983	12,344	5.6	14,247	5.5	115.4
1984	13,546	9.7	15,554	9.2	114.8
1985	14,404	6.3	16,507	6.1	114.6
1986	15,138	5.1	17,278	4.7	114.1
1987	15,942	5.3	18,165	5.1	113.9
1988	17,015	6.7	19,231	5.9	113.0
1989	18,127	6.5	20,138	4.7	111.1
1990	19,142	5.6	21,287	5.7	111.2
1991	19,636	2.6	21,411	0.6	109.0
1992	20,581	4.8	22,109	3.3	107.4
1993	21,224	3.1	22,356	1.1	105.3
1994	22,047	3.9	22,778	1.9	103.3
1995	23,208	5.3	24,073	5.7	103.7

Sources: (1) Bureau of Economic Analysis, U.S. Department of Commerce
(2) California Department of Finance

Civilian Labor Force for Resident Population Age 16 and Over

For the Past Fifteen Years

Year	Labor Force Trends (In thousands)			Unemployment Rate	
	Total	Employed	Unemployed	United States	California
	Labor Force				
1981	11,812	10,938	874	7.6 %	7.4 %
1982	12,178	10,967	1,211	9.7	9.9
1983	12,281	11,095	1,186	9.6	9.7
1984	12,610	11,631	979	7.5	7.8
1985	12,981	12,048	933	7.2	7.2
1986	13,332	12,442	890	7.0	6.7
1987	13,738	12,947	791	6.2	5.8
1988	14,132	13,384	748	5.5	5.3
1989	14,517	13,780	737	5.3	5.1
1990	15,193	14,319	874	5.6	5.8
1991	15,176	14,004	1,172	6.8	7.7
1992	15,404	13,973	1,431	7.5	9.3
1993	15,359	13,918	1,441	6.9	9.4
1994	15,462	14,133	1,329	6.1	8.6
1995	15,416	14,206	1,210	5.6	7.8

Source: California Department of Finance

Persons Employed in Principal Manufacturing Industries

For Calendar Years 1982 and 1995

(Amounts in thousands)

Industry	1982	1995	Change
Transportation equipment.....	266.3	164.0	(38.4) %
Electric and electronic equipment.....	358.0	225.5	(37.0)
Leather and leather products.....	10.5	6.7	(36.2)
Petroleum and coal products.....	31.7	20.4	(35.6)
Primary metal products.....	47.6	33.4	(29.8)
Fabricated metal products.....	138.8	116.9	(15.8)
Stone, clay, and glass products.....	50.4	43.6	(13.5)
Industrial machinery.....	227.6	197.3	(13.3)
Food and kindred products.....	182.5	173.3	(5.0)
Furniture and fixtures.....	49.0	46.9	(4.3)
Miscellaneous.....	43.2	42.0	(2.8)
Paper and allied products.....	37.3	39.6	6.2
Chemicals and allied products.....	65.7	70.0	6.5
Lumber and wood products.....	46.3	50.7	9.5
Rubber and miscellaneous plastic products.....	61.2	72.6	18.6
Printing and publishing.....	124.5	150.2	20.6
Apparel.....	102.4	152.6	49.0
Textile mill products.....	12.4	18.6	50.0
Instruments and related products.....	102.4	166.5	62.6
Total.....	1,957.8	1,790.8	

Sources: California Employment Development Department and California Department of Finance

STATE OF CALIFORNIA

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State Controller

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